

EXPANDING EXPORTS

A Case Study of the Korean Experience

By

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SEOUL, SUNDAY, JANUARY 10, 1965

President Park Urges to Increase Exports to \$1,000 Mil. Annually,

-vi-

The Korean Republic, Seoul, Jan. 10, 1965
- headline announcing the export program -

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FOREWORD

A. I. D. aims to help countries become self-supporting -- Korea increased annual exports from less than \$85 million in 1963 to nearly \$500 million in 1968, a 6-fold growth! Exports climbed from 3% of GNP in 1958 to 14% of a larger GNP in 1967.

A. I. D. believes private enterprise is the effective engine of development -- the Korean export drive enlisted thousands of firms making nearly 600 new products.

A. I. D. emphasizes self-help by developing countries -- Korea stabilized its economy, enacted a battery of export incentives, and mobilized every government economic ministry, every bank, and every trade association.

Some people hold the misconception that Korean success depended on sales to the U. S. military forces and to Vietnam. Actually, the U. S. Army in Korea increased its purchases by only \$15 million during the period of export promotion. This amount is excluded from the increase of \$415 million cited above. Commodity sales to Vietnam averaged only 5% of annual exports and dropped to 2% by 1967.

Instead of advantages, Korea started with handicaps:

- She possessed few exportable raw materials. Now 70% of her exports are manufactured products.
- She had been the "hermit kingdom" with little foreign experience. Now she sells to 76 countries.

-- She depended on tramp ships charging discriminatory rates. Now there is regular shipping at competitive rates.

While the Koreans themselves did the job, the A. I. D. Mission in Korea assisted with advice and technical assistance.

This report is a case study of the Korean experience with export development. Its author, Amicus Most, was the Senior Adviser for Export Development to the A. I. D. Mission and the Korean Government for four years, 1964-1968. During this time, he also inspected Korean trade operations in twenty-two countries. Mr. Most spent his lifetime as an engineer and businessman in such varied enterprises as foundries, watches, and housing. He also served three years in the 1950's as Industry Chief for the Marshall Plan in France, Italy and Germany.

The failures as well as the successes are frankly set forth. Each facet of the program and the methods used get a detailed analysis. A glance at the Table of Contents will show the extent of the coverage.

These experiences can prove useful to other countries and A. I. D. Missions wishing to undertake similar activities. Additional copies of this case study may be obtained from the Office of Public Information, Agency for International Development, Washington, D. C.

Robert L. Hubbell
Deputy Director for Program Evaluation

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This report was written in Washington, where many people contributed ideas, criticism and assistance. Without their help it would have been difficult to complete.

I owe to Dr. Joel Bernstein credit for making this report possible. As A. I. D. Mission Director he was responsible for bringing me to Korea, and his direction, assistance and support inspired the whole program and my work there. In Washington, in his present capacity as Director of A. I. D. 's Office of Program Evaluation, he conceived the idea for this report and gave suggestions to its development.

I am also grateful to Mr. Gilbert Brown, former Economic Officer of the A. I. D. Mission to Korea, who furnished ideas and criticism on the economic aspects; to Miss Joan Silver and Mr. Robert L. Hubbell of the Office of Program Evaluation for editorial suggestions; to Miss Nancy Meinking, who with infinite patience, took my dictation and typed and retyped drafts; and to Miss Dorothy M. Paquette, who typed the final copy for reproduction.

Finally, but most important, I cannot possibly list all those Koreans and Americans all over the world, from Cabinet Ministers and Ambassadors to clerks, with whom I worked and who are the real heroes of the Korean Success Story. They made my work possible, and happy. I shall forever be grateful to them for the opportunity to participate in this small but important part of history.

Amicus Most
Washington, D. C.
December 1968.

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CHAPTER I

INTRODUCTION

This study evaluates the work of the A. I. D. Mission to Korea during the years 1964 to 1968 in assisting the Korean Government to develop its successful export program. Its purpose is to determine the factors and reasons that led to the success of this export development. A detailed analysis will be made of every facet of the export activities of the A. I. D. Mission, the Korean Government and business community, looking at the successes and failures of each component, and making comparisons with similar programs in other developing countries.

The Korean success was not an accident, but was the result of planned programs and activities by the Korean Government with the assistance of A. I. D. , which added up to a well-rounded effort.

It is hoped that this study will provide lessons and guidelines that may be applied to similar future activities in other developing countries. This analysis will suggest general principles as well as describe specific activities that may be applicable elsewhere. While it is obvious that a program of export development is conditioned in any country or area by history, economics, geography, climate, natural resources, traditions, culture, and political factors, certain general patterns may, nevertheless, be applicable in whole or in part to other developing countries.

CHAPTER II

REASONS FOR AND FOUNDATIONS OF EXPORT DEVELOPMENT

The development strategy adopted by the Korean Government deliberately stressed export expansion as a lead factor in economic growth, particularly from 1964 on. This was done both to pay for imports rising in the typical pattern described below, and to encourage and permit a faster rate of growth of manufacturing and thus of the whole economy, than the growth of the domestic market alone would have permitted.

The economic growth of almost every developing country, which includes industrial and agricultural development, requires foreign exchange earnings to pay for large inputs of advanced technical know-how and for capital investment in modern equipment and machinery. Often economic growth also requires great inputs of imported raw material and consumer goods. Almost every developing country is therefore seeking sources of foreign exchange. This is particularly necessary for those with a negative balance of payments. More foreign exchange may be obtained through increased commodity exports and "invisible" forms of exports, such as earnings from tourism, transportation and remittances from residents living abroad. Also, exchange may be stretched by means of import substitution.

Countries that have primary agriculture crops, seafood and certain raw materials, require improved machinery and transportation and imports of "know-how" to enhance the quality and quantity of these primary exports, and to discover and develop new products. Moreover, many of them are now turning to manufacturing, agro-industry and other non-traditional forms of export development based on imported capital items.

Other countries have only a large and usually low-cost labor supply as a component for exportable products. Though the products exported contain a large input of labor, they also often require imports of raw materials and semi-processed goods. Other demands for imports are created by rising aspirations for an ever increasing standard of living despite population growth. Both the aspirations and the greater population require consumer goods that cannot always be supplied by domestic production. This in turn creates further demand for foreign exchange earnings.

In short, the achievement of rising living standards in the less-developed countries inevitably depends on their development of more complex production and trade patterns, at constantly rising levels of activity. In fact, the rate of growth of exports has proven to be a critical bottleneck to the overall development of most of these countries.

Historically, many of the now advanced countries built their economies and created their present high standard of living by concentrating on the processing of raw materials for export. Such countries as Great Britain, Belgium, Holland, Switzerland and Japan are good examples of this. Korea, Hong Kong, Taiwan, Japan, and Singapore are examples of developing Asiatic countries in which their chief exportable product is inexpensive labor. The Philippines, Indonesia, Thailand and Malaysia are examples of developing Asiatic countries in which there exist primary products for export, but which now must also develop processed foods, agro-industrial and manufactured products in order to absorb their increasing labor supply and the demands of a rising economy. There are many other examples of both categories throughout the world. While the study of what happened in Korea will be particularly applicable to the countries dependent mainly on inexpensive labor, many aspects of its development will be useful to countries which also have raw materials.

While this study deals with the contents of Korea's comprehensive export development program as such -- that is with the direct efforts to expand exports -- the success of the program depended heavily on the presence of a favorable economic environment. Aside from the factors of physical and human resources already described, the key environmental influence was the overall economic policy of the government, in particular the policy on exchange rates and price stabilization. Obviously, both affect the price and therefore the competitiveness or saleability of exports. No amount of direct sales efforts can make up for high prices.

Korea's export effort worked because of a good combination of the efforts described in this report with the establishment of realistic and more favorable exchange rates in the 1964/65 period, and with a great improvement in domestic price stability brought about by strong government policy measures. The export drive was also supported by a variety of other government policies and programs to increase Korean output, improve productive efficiency and rationalize the supply of production inputs. Many problems of potential conflict and compromise between these overall policy drives needed to be worked out, and the nature of the reconciliations achieved is another subject for policy analysis, but one beyond the scope of this report except for incidental mention. An important example is that of reconciling the inflationary impacts of export expansion, especially when it is supported by credit expansion, with the need for a reasonably stable domestic monetary climate. Another is balancing export incentives with the need to avoid the creation or expansion of uneconomic production facilities.

Thus, the direct export development measures considered in this report are a necessary and important part of any program to bring a very rapid increase in exports, but are by no means sufficient to do the whole job.

CHAPTER III

THE HISTORY OF KOREAN EXPORT DEVELOPMENT

A. General Background

Korea for many centuries was known as the "Hermit Kingdom," and did not open itself to the western world until 1883. Korea developed its own culture, but there was a strong Chinese influence. This combination of Chinese and Korean culture included agricultural and technical know-how and the development of indigenous projects utilizing its own natural resources.

Korea exported a good deal of its knowledge and culture to Japan and also acquired both knowledge and supplies from Japan. From 1905 to 1945 Korea was a province of Japan, although it had an essentially colonial status. Just as with many colonies, Korea during this period was essentially a source of raw materials and labor as well as a market for Japan. Some industrial and agricultural development occurred, including textiles, sericulture, small manufacturing, and processing of agricultural products. However, the country was still to a large degree cut off from the rest of the world. Whatever small contacts and commerce it had were through Japan. Korea had almost no commercial contacts of its own until after its liberation in 1945. At that same time, all of the Japanese technicians, executives and administrators left.

The division of the country into Northern and Southern sections brought problems for the Southern part. Much of the basic industry and power generation was located in the North. Many of the trained people were located where the industry was.

The war between Communist North Korea, and Korea started in 1950. As a result of the war the South suffered

greatly. She lost approximately a million people, including many of the most capable ones. At one point over half her people were refugees. Much of the physical plant was destroyed. After the 1953 armistice, Korea needed restoration of housing, agriculture, transportation, and education. She faced the problem of creating new electrical generator plants and basic industries. It was also necessary to begin to educate and train a new administrative and technical staff at almost every level and for every aspect of Korean life.

With United States' help, the period directly subsequent to the Korean war was devoted to this effort. Korea imported supplies, foodstuffs, raw materials, machinery and equipment. Rebuilding the country and erasing the war damages were the first steps. Subsequently, hydro-electric and steam generators, fertilizer and cement plants and other basic primary industries were built. Schools, housing, roads, bridges, water supply and irrigation canals were recreated or newly built.

In 1960 and 1961 there were two revolutions in which the existing governments were overthrown and new governments installed. From the time of the Japanese departure until the Korean war, and between the Korean war and 1961, a whole new staff of administrative and technical personnel had been developed in both government and private sectors. As a result of the two revolutions many government and private sector personnel were once again removed. It was therefore necessary to train new staffs to carry on the functions of government.

The Japanese during their forty years of occupation had allowed the existence of only a few universities, and only a few Korean students studied in Japan. The culture and traditions of Korea gave high priority to philosophy, religion and the learned disciplines. The status of the learned man, government official and the Yangban (ruling class) was the highest. Merchants, technicians and businessmen were looked upon as "low status" occupations.

Engineering schools and technical education were almost non-existent. With the end of the Japanese occupation, the great desire for learning created a tremendous rush into the schools and universities. Existing universities expanded rapidly and many new universities were created. However, they had neither the physical, administrative, nor educational capacity to give adequate training and education to the great number of new students, nor were there enough jobs available in the fields for which the graduates prepared. These problems were made worse by the North Korean Communists, one of whose objectives was to destroy the school system and kill as many teachers as possible.

Since 1953 there has been great improvement in the quality of education, and a change in its direction toward more science, engineering, business and - at lower levels - vocational training. However, as with most former colonies, a dearth of middle level administrators, executives and technicians has remained in both business and government. The few trained men very rapidly rose to the top, and top-level government officials and business executives are surprisingly young - despite the Korean family system which dictates that the head of the family makes all of the decisions, thus inhibiting effective exercise of responsibility by relatively young men. Nonetheless, there is yet a lack of trained, and particularly experienced personnel necessary to administer and develop the economy of the country.

To the credit of the Koreans, they took surprisingly few years to create a cadre of personnel to man the various jobs and to begin developing competent technicians and administrators. One strong, positive factor throughout the transition was the retention of the traditional virtues of hard work and personal productivity. In fact, Korean work attitudes and habits facilitated quick learning and high productivity when guided by sound management.

Prior to 1958, Korea did almost no exporting. It was only then that a small trickle of products began to be exported. In that year they totalled about \$17 million, consisting mainly of tungsten, coal, iron ore, clays, silk yarns, primary agricultural and sea food products. In 1961 exports were still only \$41 million.

By 1963 exports increased to \$84 million. The pattern of exports began to shift towards manufactured goods. During this period the economy was suffering from a high rate of inflation which by its very nature tended to discourage export activities. At the same time the growth rate of the economy and the developing industries required large imports. In 1963 imports amounted to \$560 million, making the import-export imbalance some \$476 million. The overall total balance-of-payments deficit for that year was \$403 million, and for 1964 \$221 million.

With A. I. D. 's shift from grant aid to development loans, and with the prospect of decreased aid in the future, Korea's future economic health depended increasingly upon planning to correct the balance-of-payments situation, and developing its manufacturing industries and export trade to accomplish this objective.

The first step, of necessity, was the establishment of the stabilization program and a more realistic rate of exchange. With the assistance and advice of A. I. D., the Korean Government developed measures to accomplish this. The stabilization program was announced in May 1963, and the currency was devalued in May 1964. The official rate of exchange moved from 130 to 255 won per dollar. (The existence of an export-import link system, whereby export earnings could be sold at a free exchange rate had gradually raised the export exchange rate to 220 - 230 won by the time of devaluation.) When the rate of exchange was allowed to float, starting in February 1965, it moved up from approximately 250 to 270 won to the dollar, and it has remained at about that level until recently.

This tremendous export growth helped to stimulate a surge in production, which in turn supported further exports. From 1959 to 1962 the annual growth rate of the Korean economy was 3.6 percent. From 1963 to 1967, following stabilization, this annual growth rate was 9.3 percent. The development of secondary industry was a key feature of this growth - all the more remarkable when contrasted with the feeble industrial capacity of 1953. The emergence of Korea as a manufacturing country has been poetically referred to as the "miracle of the Han" (River in Seoul), but as with most miracles, it resolves itself into hard work, continuous effort and intelligent direction.

B. Statistics Indicating Patterns and Trends of Exports.

In 1968 exports will probably reach the government established target of \$500 million. In December 1968, the government established a target of \$700 million for 1969. The increase of about 600 percent in five years, from a level of \$84 million in 1963, is the measure of the success story of Korean export development. The above figures do not include foreign exchange earnings through sales to the United States Armed Forces located in Korea, or through "invisible" exports from sources such as tourism, transportation, overseas labor and soldier remittances, etc.

The pattern of exports shifted so that in 1967 manufactured products represented 69 percent of the total exports in hundreds of new items in a wide variety of products. Textiles and clothing of cotton, silk, wool and synthetics; rubber and canvas footwear; tires; knit goods; handicraft; dishes; ceramics; musical instruments; pharmaceuticals; grass cloth wallpaper; wigs; flat glass; brass; artificial flowers; eyeglass frames; batteries, and even heavy machinery are included in this wide variety of items. In 1967 total plywood exports were \$36 million, the United States taking approximately \$32 million.

Unfortunately, complete statistics are not available. However, as shown in the following table, they are sufficient to indicate the shifts from primary exports to new manufactured products. (See Table 1.)

While this report will devote attention to many products and many problems, it cannot discuss the hundreds of items that were developed and the thousand-and-one problems that arose. Tables 3-6 on the structure and destination of exports for the years 1959, 1963 and 1967, give some concept of the large varieties of products involved and the dimensions of increase.

The six tables reproduced here are taken from the pamphlet, "Major Economic Indicators 1957-1967", published by the Economic Planning Board of the Korean Government. (Inconsistencies are caused by the fact that some figures are bank settlement statistics and others are custom house clearance statistics. These inconsistencies do not affect the purpose of presenting them here as indications of patterns and trends.)

Table 2. ANNUAL EXPORTS
(In \$ thousands. Page 74 of "Indicators")

1958	\$16, 780	1964	\$120, 851
1959	20, 436	1965	180, 450
1960	32, 385	1966	255, 751
1961	42, 901	1967	320, 229
1962	56, 702	1968	500, 000
1963	84, 368		(Estimated)

While we have been unable to locate statistics on "added value" earnings, informed economic opinion is that approximately 60 percent of manufactured goods exports are net earnings, and that on all other products, it is almost 100 percent.

Table 1. SHIFTS IN NATURE OF EXPORTED PRODUCTS

	<u>1956</u>	<u>1958</u>	<u>1960</u>	<u>1966</u>	<u>1967</u>
Number of countries	18		20	76	
Number of products	42		65	621	
Value of exports (millions of dollars)		16. 7	32. 4	255. 7	320. 3
Manufactured goods as % of exports		14. 8	18. 2	62. 4	69. 0
Agricultural, marine and mining products as % of exports		85. 2	81. 8	37. 6	31. 0
Export as % of GNP (excluding invisibles)		3	4	11. 4	14

The United States has become Korea's chief market taking approximately 43 percent (1967) of its total exports, with Japan in second place taking approximately 26 percent (1967).

Table 3. EXPORTS BY MAJOR COUNTRIES
(In \$ thousands. Page 70)

<u>COUNTRY</u>	<u>1959</u>	<u>1963</u>	<u>1967</u>
<u>ASIA</u>			
Taiwan	\$ 127	\$ 722	\$3, 104
Japan	12, 680	24, 841	84, 723
Hong Kong	1, 032	9, 120	15, 215
Philippines	--	2, 596	565
Others	937	16, 457	25, 536
Sub-Total	14, 776	53, 736	129, 143
<u>EUROPE</u>			
United Kingdom	858	1, 587	7, 883
France	26	538	2, 116
Italy	10	1, 810	1, 087
Germany	494	1, 275	5, 233
Others	865	2, 698	16, 866
Sub-Total	2, 253	7, 908	33, 184
<u>AMERICAS</u>			
U. S. A.	2, 133	24, 287	137, 431
Canada	--	249	7, 914
Others	--	16	749
Sub-Total	2, 133	24, 551	146, 094
<u>AFRICA</u>	--	142	8, 762
<u>OCEANIA</u>	--	240	3, 038
<u>NOT CLASSIFIABLE</u>	650	225	8
 GRAND TOTAL	 19, 812	 86, 802	 320, 229

Table 4. EXPORT STRUCTURE
(In \$ Thousands. Page 66)

<u>Item</u>	<u>1959</u>	<u>1963</u>	<u>1967</u>
Agricultural Products	\$ 3, 480	\$ 11, 222	\$ 16, 971
Marine Products	3, 649	13, 090	52, 834
Mining Products	9, 821	16, 446	40, 603
Manufactured Goods	<u>3, 486</u>	<u>43, 610</u>	<u>248, 184</u>
Total	20, 436	84, 368	358, 592

Table 5. EXPORTS BY COMMODITY GROUP
(In \$ Thousands. Page 67)

<u>Item</u>	<u>1959</u>	<u>1963</u>	<u>1967</u>
Food & Live Animals	\$ 4, 118	\$17, 841	\$37, 928
Beverages & Tobacco	106	250	7, 017
Crude Materials			
Inedible except Fuels	11, 713	26, 405	58, 002
Mineral Fuels Lubricants			
& Related Materials	657	2, 579	1, 770
Animal & Vegetable Oils			
& Fats	177	92	119
Chemicals	116	904	2, 360
Manufactured Goods			
Class. by Material	2, 139	28, 115	101, 384
Machinery & Transport			
Equipment	48	4, 067	14, 188
Miscellaneous	86	6, 401	97, 242
Not Classifiable	<u>653</u>	<u>146</u>	<u>219</u>
Total	19, 812	86, 802	320, 229

Table 6. EXPORTS BY COMMODITIES
(In \$ thousands. Page 68)

<u>Item</u>	<u>1959</u>	<u>1963</u>	<u>1967</u>
Swine	\$ 134	\$ 3,676	\$ 52
Fresh fish	602	3,209	12,461
Cuttel fish & its products	516	1,915	2,299
Shrimp & its products	86	1,656	4,240
Dried laver	1,191	1,504	6,498
Raw silk	744	4,292	14,872
Agar agar	717	1,739	4,671
Human hair	--	239	11
Animal wool	630	2	653
Tobacco & its products	89	204	6,668
Ginseng	72	430	,922
Kaolin	110	271	419
Natural graphite	626	863	994
Fluorite	389	777	991
Iron ores	2,178	5,912	6,059
Lead ores	171	518	1,775

Table 6. CONTINUED

<u>Item</u>	<u>1959</u>	<u>1963</u>	<u>1967</u>
Zinc ores	--	90	1, 168
Tungsten ores	3, 397	3, 075	11, 027
Anthracite coal	657	2, 578	1, 750
Cotton fabrics woven	1, 425	4, 289	12, 592
Woolen fabric woven	--	10	3, 963
Other fabrics woven	--	471	9, 853
Outer garments	--	3, 259	8, 001
Undergarments	--	1, 076	15, 339
Iron and Steel	--	3, 317	684
Bars, Angles of iron & steel	--	105	228
Plates & sheets of iron & steel	--	8, 290	972
Rubber tires & tubes	--	511	1, 638
Plywood	11	5, 833	36, 418
Radios	--	146	1, 932
Bamboo handworks	1	98	284

In sum, how can we explain the remarkable growth of Korea's output and exports in recent years? As mentioned earlier, growth patterns are determined in any given country or area by many factors such as history, resources and cultural patterns. While influenced by these factors, the remarkable growth rate development in Korea was neither their inevitable result nor an accident. It was due to planned and organized activities by the government, with some assistance from A. I. D. and others, and to the industry and intelligence of its people and business community.

CHAPTER IV

SUMMARY OF BASIC PRINCIPLES AND THEIR APPLICATION IN KOREA

The experience in Korea has evolved basic principles that have applicability elsewhere. These are indicated briefly below.

The full report that follows after Chapter V describes the successes and failures of each activity, gives case histories of various products, and the details of the solutions or lack of solutions found to specific problems. We suggest that those who wish to use this report as a guide to similar activities read it in full. Others who may be interested in a single problem can find, in the table of contents, the chapter devoted to their particular interest.

A. General Policy Framework

In much over-simplified terms, there have been two methods of developing exports. The first has been by those countries whose primary objective was to earn and save foreign exchange at almost any cost. They embarked upon a program of import substitutions with high tariff protection and large direct and hidden export subsidies to offset the cost of over-valued currencies. These devices created inefficient industries and high-cost products for the domestic consumer, and eventually slowed down exports. They may have saved or earned foreign exchange temporarily but this was done at the cost of deterioration of their economy and its future potential for expansion of output and trade.

The method upon which Korea based its policies had the objective of creating a rational, sustainable and export-

oriented industrial growth which would minimize the necessity for long-term government subsidies, provide lower cost products for domestic use, and assist in the process of raising the standard of living. This was accomplished by establishing a realistic exchange rate, reducing import restrictions and making export growth a primary objective in government investment and lending programs - including both short-term across-the-board (i. e. , applicable to all exports) subsidies - and by establishing a massive program of support activities including technical assistance programs designed to promote efficient production that could stand up to international competition.

While it is possible for a country to engage in export activities even under conditions of economic instability and inflation, it is extremely difficult to do this and at the same time obtain the general benefits from export development described above. In an inflationary economy the possibility of earning profits through domestic activities is much greater than through exporting. Importing commodities, stockpiling inventories, and construction activities present greater opportunities for large profits, while the time lag involved in exporting discourages this activity. Rising material costs and export prices do the same. Therefore, the stabilization measures adopted by the Korean Government provided an essential backdrop for the export program, including the provision of the necessary domestic savings for investment in export expansion. The freeing of import restrictions, plus the other stabilization measures forced Korean producers to be competitive, increased the supply and variety of production materials, and helped control prices.

In countries where the pre-conditions of stable economic growth and rates of exchange already exist, less attention to them will be required than of Korea.

B. Essential Conditions for Success

Five essential conditions must exist, or be created, to achieve a major acceleration of exports in the typical environment of the less developed countries.

- An awareness by both the private and public sector of the necessity for export development, and a willingness to do something about it.
- An entrepreneurial community interested in and capable of developing the necessary manufacturing and agro-industries. If such a community is weak, there must be evidence that it can be strengthened or if it is non-existent, that it can be created.
- Products available or products that can be developed for export which can compete in price, quality, volume and time of delivery in the international markets. In addition, markets for these products must exist.
- A broad program, developed by the direct participation of both the private and public sector, to create the necessary structure and the profit incentives that will induce the private sector to involve itself in export development in preference to doing something else.
- An organizational structure that will mobilize and activate all of the related private, public, and quasi-public sectors of the economy, including

the economic ministries, support institutions banks, educational institutions, trading and business community, and both native and foreign entrepreneurs.

Each of these five points and the manner in which it was developed in Korea after 1963 is elaborated below.

1. The Desire to Export

Because of the unfavorable balance-of-payments situation, declining foreign aid and the cognizance of the need for an external stimulus to industrial growth, the government recognized the necessity for a large increase in exports.

Those sectors of the business community that had made large profits from the high rate of inflation, while admitting the need for export development, resisted many of the stabilization measures. To their credit, however, they understood with a minimum of education and explanation, that in the long run it was to their interest to accept stabilization. The few exporters as well as the smaller businessmen had been initially inclined to support the stabilization program. Thus, in a short time the entire business community recognized the necessity and desirability of increased earnings in foreign exchange and became eager to proceed.

The business community, having more or less accepted stabilization in principle, had to be educated to an entirely new philosophy of business.

Competition between products, particularly on the international market, is based on quality, price, and timing, therefore, business must emphasize efficiency, cost control, quality, speed, and larger scale production.

The expanded production and sales will offset the smaller unit profits which must be taken to compete.

While this philosophy needed development, both government and business showed a demonstrable desire to enter into an export program. Without such a desire no program can succeed.

2. Existence of an Entrepreneurial Class and a Trading Community

An entrepreneurial class should exist, and if it does not exist there should be evidence that individuals in the community can be developed into entrepreneurs. These individuals might include those now engaged in manufacturing for domestic use, or persons who have the ability and imagination to engage in new and expanding activities.

An important group consists of those businessmen who are now traders. These might be importers who could fairly easily direct their activities toward exporting. They might be traders engaged in domestic trade who are both collectors and distributors of products. In countries where primary products in agriculture and the extractive industries play an important role, existing traders with initiative can develop into entrepreneurs.

Korea had some manufacturers and many traders for the domestic market. Both groups provided a basis for developing an exporting entrepreneurial group.

3. Exportable Products.

A preliminary though cursory survey indicated that Korea had existing and potential products that could be developed for export. It was evident that most of these products could not meet international requirements as to

price, volume, quality, design, packaging, delivery time, etc. However, sufficient products and potentials could be developed to meet world market requirements. In making this survey, major importance was given to availability of the products selected.

4. Developing the Program

Since the pre-conditions existed (at least to the extent that permitted strengthening them while direct export development efforts were proceeding), it was possible for the government and the business community with the assistance of A. I. D. , to undertake a planned program of export expansion. The program in Korea consisted of a number of incentives and of other support measures which together formed a systematic and comprehensive approach. Similar activities may well be applicable in whole or in part to other developing countries. These will be outlined in Section C below.

5. Organization for Export Development

Programs developed on paper can sound good. But they remain rhetoric unless there is an organization capable of putting into action the measures and ideas which the programs set forth.

In the complex organization of governments, there is a tendency to confuse words with action. Elaborate programs are worked out by well intentioned committees and authorities. Action is then assigned to some agency, which reviews the words, and then proceeds to continue to carry on its activities as it did previously, paying scant attention to organization necessary to implement the new program. The Korean export effort set out to counteract these usual tendencies. The method is described in Section D below.

C. Incentives and Support Measures

1. General Principles Regarding Incentives

A basic philosophy concerning the nature of the incentives evolved as follows:

- a. Obviously, all incentives are a form of subsidy but as much as possible direct subsidies for particular production facilities should not be utilized. Such subsidies tend to create inefficient industries and are difficult to remove later.
- b. As much as possible, incentive benefits should be limited to new exports or export development industries. Their purpose is to expand exports and not to be simply an extra "bonus" for already existing exports.
- c. If all tax incentives are given only to profits from new or expanded exports, they do not deduct from existing government incomes, but only from additional revenues created as a result of the new growth and new exports.
- d. Policy should also preclude tariff protection as much as possible. Exporting involves international competition and requires efficient production. Protection tends to develop inefficient and high-cost industries.
- e. Import substitution is, in theory, a proper way to reduce the drawdown of foreign exchange earnings. If it can be done without embarking on a program of high tariff protection, it is effective. Regretfully, in practice it almost universally results in over-protected, inefficient and high-cost industries that not only

create expensive products for domestic use, but act as a brake on export expansion. In general, import substitution just doesn't work.

f. In the initial program stages in particular, the banking and financing components of the program should not dominate the effort. A practical way to avoid this is to keep the export development organizations from being directly associated with banking institutions. Rather, the financial institutions should only be one of the several organizations within the export development framework.

g. A wide variety of incentives should be developed which are applicable to many situations. This also leaves a flexible situation where other proposals can be adopted if all of the original incentives proposed are not completely accepted.

h. All incentives should be made available to both native and foreign companies, and to joint ventures.

2. Profit Incentives

The government recognized that in a private enterprise system production for exporting is done primarily by the private sector, and that the government must create profit incentives to induce the business community to engage in export development. As recommended by the Joint Export Commission (EPSC) described below, the Korean Government relied largely on free market forces and inaugurated an extensive series of credit, tax, finance and support incentives for this purpose. It also took steps to eliminate restrictions and restrictive practices that interfered with this development.

3. Credit Incentives

These were designed to make credit available to companies wishing to expand and develop new exports and to give these companies credit beyond their present credit structure:

- a. Short-term, low-interest loans against firm letters of credit. L/C loans were made at a 6-1/2% per annum rate, contrasted with bank loan rates that ranged downward from a rate of 28%, and with the average on all loans of approximately 17%. A co-signature system on L/C loans was instituted by which the trader and the producer could share in this loan in proportion to their portion of the value of the export item involved.
- b. Loans for purchasing indigenous or imported raw materials.
- c. Low-interest loans to permit credit sales to foreign customers against bills of lading.
- d. Special low-interest crop loans on agricultural products designated for export.
- e. Same for seafood products.
- f. Top priority to capital development and machinery loans for new or expanded export industries.

4. Tax incentives

- a. No income tax or a reduced income tax on profits from new or expanded exports during development period.
- b. Accelerated depreciation allowances on new plants, machinery, or improvements on agricultural lands used for export products.

- c. Tax deduction allowance on travel and overseas promotional expenses.
- d. Reduction of local taxes (sales, transaction, real estate, etc.) on indigenous and imported raw materials used for export products.
- e. Reduction of or a limited time exemption on all taxes on new or expanded plant facilities or agricultural land developed to expand exports.
- f. Tax deduction for research and technical assistance expenses connected with new exports.
- g. Elimination of all export taxes.

5. Other Financial Incentives

- a. On coal exports - uniform freight rates to any export port from any internal location.
- b. Free entry of machinery used for export development.
- c. Free entry through an individual plant "bonded warehouse" system, of raw materials used in products for re-export.
- d. Free entry of supplies, not for re-export, but necessary for production, e. g. lubricating oils, dies, processing chemicals, etc.

6. Other Support Measures

In addition to the direct financial incentives, a series of other support measures including the strengthening or creation of institutions related to exporting, were provided or planned. These measures included:

- a. International trade promotion and market research (Korean Trade Promotion Corporation - a government agency)

- b. Productivity (Korean Productivity Center)
- c. Massive input of technical assistance
- d. Simplification of paper work procedures
- e. Quality development and control
- f. Export inspection
- g. Design
- h. Packaging
- i. Export insurance
- j. International arbitration of disputes
- k. Business ethics education
- l. Expedition and complaint centers
- m. Standardization
- n. Market research training
- o. In-and-out travel missions
- p. Industrial parks and free trade zones
- q. Engineering, technical and vocational training programs.

The pros and cons of these incentive and support measures are discussed in subsequent chapters. While all of these incentives are not applicable to every developing country, the important fact is that incentives are an essential ingredient to this development process. Without these incentives it would have been impossible to develop the program in Korea.

D. Joint Export Development Committee (EPSC)

1. Need for An Organization:

A massive export development program involves almost every part of the economy, including most of both the private and public sectors. A method had to be found that would mobilize and activate all these forces in the community. A mechanism had to be developed that would actively involve every economic Ministry, quasi-government agency and university, the banking community, and all sections of the business community in a single organization that could plan, coordinate,

activate and direct the entire program.

In many countries, the writer has observed the establishment of a top level export committee, composed exclusively of government and/or banking officials. While these committees may achieve some limited successes, they are not wholly successful because they do not actively enlist the entire economic community of their country. Even when the membership of such a committee includes important officials of public and private organizations, it does not necessarily serve its intended purpose. What is essential is a conscious and continuing effort to get the active participation of all related sections of the government and the business-economic community and of individuals.

2. Establishment of the EPSC

In Korea, the various agencies and ministries did communicate and meet with each other, but these were unorganized and unstructured contacts which did not, at first, result in unified action. In 1963, a joint export development committee that should have accomplished this objective was established on paper. In practice, the committee was non-existent. A. I. D. began late in 1964 to probe the feelings of the many interested persons regarding the formation and activation of this committee. While there was general agreement as to its usefulness, much of the acceptance was mere lip service. Ministerial prerogatives, distrust between the business community and government agencies, and general inertia militated against its activation. A continuous campaign of explanation and education was required to gain complete acceptance of this concept.

In March, 1965, as part of the export development program, the Joint Export Development Committee was officially established as a sub-committee of the Economic

Cooperation Council (ECC), which was the top level coordinating organization of the Korean Government and A. I. D. The Joint Export Development Committee was usually called the Export Promotion Subcommittee. By agreement between the Deputy Prime Minister, who was also the head of the Economic Planning Board, and the Director of the U. S. A. I. D. Mission, representatives of the Mission were made part of the EPSC.

3. Organization and Activation of EPSC.

EPSC consisted of: (a) the Vice Ministers of Commerce and Industry, Agriculture and Forestry, Finance, Economic Planning, Transportation, and Foreign Affairs; (b) the Directors of other governmental and quasi-government agencies such as Customs, Monopoly, Korean Export Promotion Corporation, Bureau of Standards, agricultural and industrial research centers; (c) the governors and officials of the Bank of Korea and of private banks; and finally but very important, (d) the Presidents of the Korean Chamber of Commerce, Korean Businessmen Association, Korean Traders Association, Small and Medium Business Cooperatives Association, and other trade associations. Thus was combined the private and public sector.

The Vice Minister of Commerce and Industry and the Deputy Director of A. I. D. were co-chairmen of the EPSC. The EPSC relied on a steering committee to do the detailed planning and coordinating of the overall export drive. This steering committee consisted of two people, the Assistant Minister of Commerce and Industry and the A. I. D. Export Advisor.

At the working level, a series of cross-sectional private and public sector working task forces were responsible for activities in the following areas: Finance

and Taxation, Agriculture, Fishing, Mining, Heavy Industry, Light Industry, Marketing, Information, Quality Improvement and Technical Assistance, Simplification of procedures, and Exporter-Importer Relations. An A. I. D. technician was attached to each task force as an advisor. The A. I. D. technical advisors attached to every task force were able to contribute their experience and knowledge.

The activation of these Working Task Forces required considerable effort on the part of the steering committee. At first, members of the working groups were inclined to think that they existed merely to obtain financial assistance from A. I. D. As their work progressed, they gradually began to function as overall policy-making committees formulating plans and recommendations to implement the basic export program established by the government.

The central staff of EPSC consisted of a small Secretariat whose only job was to expedite meetings, gather minutes and prepare resumes for central committee meetings. The work of developing programs was left to the working committees or task forces who in turn would call upon the constituent organizations for advice, programs, ideas and activities. In this manner the private and public sectors were mobilized into an institution which involved them in all aspects of the development process.

Since a commodity-by-commodity approach was necessary, the Ministries of Commerce and Industry and of Agriculture and Forestry assigned a total of 35 commodity chiefs, each responsible for a single commodity. While reporting directly to the ministries involved, they also coordinated their activities with and submitted reports to the appropriate EPSC working groups. EPSC suggested that each commodity chief should work with representatives of the industry to set

up an advisory committee. This instruction was carried out in some areas, but was not fulfilled in others.

4. Korean Take-Over of Function

Parallel to the EPSC was a similar government committee, which consisted only of government officials with the business representatives acting in an advisory capacity and without A. I. D. members. Many of the members of the government committee were also members of the joint committee. As the committee members gained experience and knowledge, the work of the joint committee was gradually taken over entirely by the various agencies and sub-committees of the government. The government committee in turn took into its ranks more representatives of the Korean business community. By the end of 1966 the joint committee (EPSC) ceased functioning and its entire work was handled by the Korean Government and private business sector committees.

5. Accomplishments of EPSC

Since EPSC was not a government agency, it had no power other than to make recommendations. However, the record for the two years shows that almost all of its recommendations were adopted by various government agencies.

One reason for this record is that the Korean Co-Chairman of this committee, from its inception, reported once a month directly to the President of Korea on the committee's work and the ensuing program implementation by the Korean Government. The President took a personal interest and issued instructions on major policy matters from time to time. The weight of his office gave continuous support to the activities of the Joint Export Development Committee, i. e. EPSC. Statistics of actions taken are shown in the following tables. Full data on the nature of proposals and results are in the appendixes.

Table 7

Summary of Actions taken on Proposals 1965 (Jan - Sept)

	<u>EPSC Proposals</u>				<u>1965 Export Promotion Policy Proposals</u>				<u>Grand Total</u>
	<u>Proposals Accepted</u>	<u>Under Consideration</u>	<u>No Action</u>	<u>Total</u>	<u>Proposals Accepted</u>	<u>Under Consideration</u>	<u>No Action</u>	<u>Total</u>	
Finance & Taxation	0	5	2	7	10	2	1	13	20
Agriculture	2	7	4	13	0	1	0	0	13
Fisheries	0	2	3	5	0	1	0	0	5
Mining	5	2	3	10	0	0	0	0	10
Light Industry	1	2	1	4	2	0	0	2	6
Heavy Industry	3	1	1	5	0	0	0	0	5
Simplification of Procedures	3	0	2	5	3	0	0	3	8
Information	0	4	2	6	1	0	0	1	7
Exporter /Importer Relations	1	0	0	1	3	1	0	4	5
Marketing Analysis & Research	1	4	2	7	5	1	0	6	13
Quality Improvement & Tech Asst.	4	3	4	11	10	0	0	10	21
Export to Vietnam	3	3	2	8	0	0	0	0	8
Steering Committee and n. e. c.	1	1	0	2	5	2	0	7	9
TOTAL	24	34	26	84	39	6	1	46	130

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Table 8

Summary of Actions taken on Proposals 1966 (Jan - Sept)

	<u>EPSC Proposals</u>				<u>1966 Export Promotion Policy Proposals</u>				<u>Grand Total</u>	
	<u>Propoals Accepted</u>	<u>Under Consid- ation</u>	<u>No Action</u>	<u>Total</u>	<u>Proposals Accepted</u>	<u>Consid- eration</u>	<u>No Action</u>	<u>Total</u>		
Steering Committee	5	0	0	5	10	0	2	12	17	
Finance & Taxation	4	0	1	5	17	2	3	22	27	
Agriculture	1	2	2	5	-	-	-	None	5	- 33 -
Fishery	0	2	0	2	-	-	-	None	2	
Mining	2	5	0	7	-	-	-	None	7	
Industry	2	0	0	2	3	0	0	3	5	
Quality Inspection & Tech Asst.	8	2	0	10	5	0	1	6	16	
Marketing	10	0	0	10	14	0	7	21	31	
TOTAL	32	11	3	46	49	2	13	64	110	

A. Most
Report - Oct 1966
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The recommendations formulated each year became to a large extent, the export program for the following year. As the overall program developed, government institutions and private organizations themselves more and more took on the functions required for its implementation. The committee's work changed to one of formulating broad policies. During the second year the number of working groups were reduced, and the number of meetings declined, as did the number of people required to attend.

Toward the end of 1965, and again in 1966, a complete report was prepared and presented by the Steering Committee to the Economic Cooperation Council. The presentation of the report was attended by the Deputy Prime Minister and the A. I. D. Director who served as chairmen, and by the Ministers and other important officials of the major economic ministries and government organizations concerned. The full reports were circulated in advance, and point-by-point summaries were read to the Council. These reports were given serious attention, and their recommendations assisted in formulating government policy and actions. The fact that all these busy officials devoted a half day to attending the presentation and discussion of this report is evidence of the importance that was given to export activities.

In conclusion, the system was effective (1) because the Joint Committee succeeded in mobilizing, uniting, and activating all areas of the private and public economic structure related to exporting, and (2) because the Joint Committee gave the government committees, which functioned separately, usable advice and ideas. In the short period of two years the government structure had become so institutionalized and operative that it required no more outside assistance.

CHAPTER V

EXPORT DEVELOPMENT PROGRAM

The formulation of the first overall program began in early 1965. The job of putting this program into a single document was given to the Assistant Minister for Export Development of the Ministry of Commerce and Industry. A. I. D. furnished technical assistance.

The program as finally formulated was a mixture of broad policies, statements of purpose in certain fields, specific and detailed implementation measures in others, and a series of predictions. Some of it was poorly defined and over-general. It included financial and taxation measures, a series of studies, technical instructions, research proposals, marketing measures, references to specific industries, and plans for the establishment of some new institutions and the strengthening of others. Despite the mixed nature of the contents, it brought together all the elements and measures required to achieve the high priority given to export development. Included in the program was the establishment of the Joint Export Committee (EPSC) previously described.

A. Economic Study to Determine Program Size and Shape

Following the determination of the general components of the program and its institutional framework, the next step was an economic study to determine realistic levels of proposed export increases. The Economic Planning Board -- the senior economic Ministry -- was given this task. Its Minister was also the Deputy Prime Minister and the Chairman of the Cabinet Sub-Committee of Economic Ministers. In

addition to its planning activities, it had control over the budget (and foreign aid) and thus had great leverage over all the other Ministries. The Ministries of Commerce and Industry, and Agriculture were called upon to develop targets for each product based on an analysis of increases which were attainable.

Export development required capital input into many industrial, agricultural, mining and seafood development activities. Credit financing was needed for the proposed incentives program as well as for raw materials and working capital. In addition, financing was necessary to develop the physical and institutional infrastructure.

In addition to setting export target goals and estimating the financial resources which they required, it was also necessary to consider how the financing might be obtained. The planning of export development was only a part of the overall planning for the development of the entire economy. Since export development had been given the highest priority, in some instances resources were withdrawn from other programs. Most of the financing came from Korea's own resources, public and private, with some help from A. I. D. and other international assistance programs.

Since achievement of the stabilization program depended heavily upon anticipated export earnings, there was real pressure to meet the targets of the planned export program. Nevertheless, there was a dynamic approach, with constant reviews and shifts in priorities and allocations.

The Ministry of Commerce and Industry assigned export targets to every organization in the country. Each sub-district, each city, each industry and each industrial organization received specific targets. Targets were even

established for individual companies wherever possible. Overseas, the Ambassadors and the KOTRA centers (Korean Trade Promotion Corporation) were given the responsibility of seeing that country sales targets were fulfilled. The process of establishing the targets was not always scientific, and they were often educated guesses. While the overall goal was not changed, the separate individual targets were shifted as experience or further analysis suggested. To the amazement of those not directly associated, the national, annual, overall target was reached year after year.

It is probably essential to any program anywhere in the world that, while it may not necessarily follow the exact Korean pattern, it establishes goals, and provides financial resources which meet the requirements.

B. Financing the Program

The economic studies had determined the substantial amounts required for this extensive development program. The direct and indirect subsidies, tax rebates and support institutions, as well as the new capital investment, involved a significant portion of the national income and of the national investment input.

The Korean economy was receiving assistance from the United States and other foreign donors, and foreign investments from Japan and some European countries. Questions have been raised as to whether it would have been possible to mount this export program without such a massive input of assistance. U.S. aid assistance had been much greater during the ten years prior to the beginning of the export drive. From 1963 on it began tapering off and while substantial, it was considerably less than previously. Development loans were replacing

grant assistance. Total net borrowings and net transfers from the rest of the world from all sources constituted approximately 10 percent of the Gross National Product for each year 1957 to 1963. In each of the following three years 1964, 1965 and 1966 foreign resources constituted about 7 percent of GNP and in 1967 about 8-1/2 percent.

Knowledgeable economists connected with the program have stated that investment needed for the export development program could have been made available even if there had been no outside economic assistance. Technical help can be bought, if not provided otherwise. Export increase would undoubtedly have moved at a much slower rate, but could have been developed through the local resources available in Korea, if the right policies had been established.

The funds required came from many sources. Part of them came from the government budget, part from capital growth, and part from the rapid expansion of private savings that followed government stabilization measures - which included raising the rate of interest for savings paid by banks from 16 percent to 30 percent. This increase in the savings interest rate attracted large sums into the banks, which could channel the use of the funds in an orderly and planned manner. Priority was given to export financing, which was given subsidized interest rates.

The cost of giving the low interest rate to exporters for various purposes (including the important incentive of 6-1/2 percent loans against letters of credit) was borne by the Central Bank rediscounting the loans by the commercial banks. The rediscounting was covered partially out of other profits of the Central Bank, and partially from government subsidies to it.

As exports increased, more and more credit was available from foreign sources as well as from the large increase in foreign exchange reserves. In 1965 these reserves amounted to \$138 million. By 1967 they had reached \$347 million.

It was possible to finance export development needs, despite necessary monetary and budget restraints, because of the careful attention given to the source and distribution of financing.

C. Selling the Program to the Country

The next step was to sell the program to the public, and particularly to the business community. The initial drive was begun by President Park of Korea at a well publicized meeting to which men from the top levels of government, from support institutions, banks, and a wide sector of the business community had been invited.

President Park announced that export development would become the number one priority in the economic development program. He placed such emphasis on the export program that his announcement was headline news. (See The Korean Republic, Seoul, Jan. 10, 1965, p.1.) Subsequently, many other meetings were held in cities throughout the nation and much publicity was given to the various aspects of the program.

The Joint Export Development Committee reported in a body, once a month to the President of Korea, who took a personal interest in the problems presented.

Each Cabinet Minister had regular meetings about the export program with his staff. The Presidents of the various business organizations called meetings of their members to promote, explain and discuss the problems involved.

The A. I. D. Mission Director and the Senior Export Advisor met with hundreds of businessmen, and dozens of business organizations. A regular series of weekly luncheons with the heads of various organizations was held.

This massive promotional campaign created enthusiasm throughout the country. Almost every sector of the business community from the largest to the smallest became interested, and began to give thought to how they could become involved. Success stories were publicized and exporting became one of the prime objectives of every businessman and business organization. Prizes were given at ceremonial occasions for successful performance.

D. Input of Technical Assistance

Because of the nature of the developmental process, the export program required a massive input of technical assistance. It included specialized technicians assisting in specific projects at the management and factory levels as well as generalists advising at the highest levels. It included sending trainees overseas both as individuals and teams as well as developing training and educational programs in the country.

In Korea much of this technical input was requested by the Korean Government from A. I. D. The Mission obtained new advisors and made liberal use of experts already in the country for other purposes. The A. I. D. Export Development Committee and the Senior Export Advisor coordinated the whole program. Other assistance came from international organizations and from private business. The source of technical help can be varied, but the desire by both government and the private sector to be guided by its advice is most essential.

E. What Not To Do

Certain export activities in many parts of the world have been observed to bring little or no results. Some of

these activities are included here as a note of caution.

1. Premature Propaganda

Internal propaganda is a part of export development. However, no campaign should be prematurely started. The programs, incentives and organizational structure should be planned before launching the campaign. A premature campaign could involve business in activities which might not be successful, and thus would actually set back the program. Propaganda exhortations in the name of patriotism are insufficient. Concrete plans and incentives must be presented.

2. Over-emphasis on Selling

Often a so-called export development program consists only of export promotion -- the selling process. This is important, but it is only one part of an export program. Export development includes the entire range of activities outlined previously. Before promoting there must be products to promote.

3. No Panacea

Unplanned, haphazard and unrelated incentives or activities may help, but will not succeed in bringing large scale results. For example, in the Philippines the major government export organization was established to tackle one problem, that of export procedures. In one Latin American country the major emphasis of the program evolved was to develop "industrial parks." In other countries a single incentive or a single production development program was established. At best, haphazard activities can only bring limited success and may dampen the enthusiasm and initiative of the export community. The problem must be surrounded.

4. Money Isn't Everything

Although important, financing and investment should not be given primary prominence. While it is sometimes unavoidable, it is wiser if the export organizations are not part of a banking institution. Rather the banking institution should be one of the component parts of the export organizations.

5. Exclusive Organizations

In many countries, small export committees have been established. Some consist only of government officials, others mostly of banking officials, and still others only of business organization officials. While these can do useful work, they do not accomplish the basic purpose of involving the whole of the government and the private sector together. They may also develop into bureaucracies which perpetuate themselves. In each country the type of organization must be determined by local political and economic factors. However, the best organization is that in which the central committee has a small staff and the work is done by the participating organizations.

6. Over-optimistic Sellers

In developing a program one cannot always wait for logical step-by-step development. If an individual product meets international standards and can find a market, it should be pushed without waiting for the whole program. Success stories are important. However, it is essential that products actually be ready for the international market. Often the sample may be acceptable, but the producing unit is not quite ready to fulfill the orders it has accepted either as to quality, quantity or time of delivery. Premature selling without an organization to back it up can often do more harm than if no selling had been done in the first instance.

CHAPTER VI

A. I. D. MISSION'S ROLE

A. Organization for Assistance

Even prior to the complete realization by the Korean Government that a large increase of exports was important to their economic development program, the A. I. D. Mission had recognized the necessity for this activity. Both in preparation for and subsequently as a result of the request for assistance from the Korean Government, the A. I. D. Mission Director made the determination to establish the machinery within the Mission to assist in this activity. It was agreed that export development required a coordinated overall approach within the A. I. D. organization. The program would involve every aspect of A. I. D. activities -- programming, economic analysis, financing, technical assistance, industry, agriculture, mining, seafood, education, investment promotion and information activities.

Because all activities were involved and exporting is everybody's business, it would be nobody's business unless there was a focal point for these activities. The A. I. D. Mission therefore established an Office of Export Development and Private Enterprise designed to serve both the Mission and the Korean Government. The Senior Export Advisor was to act as a focal point of ideas, to coordinate and give impetus to the activities of the Mission, and to assist the Koreans in the same process. His staff consisted of two assistants (one American), two secretaries (one American), and one interpreter.

The Director set up an A. I. D. committee of representatives from each of the divisions indicated above with the Senior Export Advisor acting as Chairman, to deal with export development. Closely related to export

development was the foreign investment promotion program. An A. I. D. committee for foreign investment development was also established with the Chief of the Finance Division as Chairman and the Senior Export Advisor as a member. A third committee concerned with small and medium industry was chaired by the Chief of the Industry Division. There were still other committees in other areas of activity of the Mission.

When programs had been formulated by the A. I. D. Export Committee, implementation was turned over to the appropriate division. The lines were sometimes blurred and there was inevitable overlapping of programming and activity, but as much as possible this method was carried out.

Through the regular Director's meeting with the senior staff, plus ad hoc meetings on specific problems with the various Chairmen, the work of all these committees was coordinated. The Senior Export Advisor and the A. I. D. Export Committee were the contact point between the Korean Government and the A. I. D. Mission.

Within the Mission these committees reflected the philosophy of the "overall" approach. For example, a proposal regarding the exports of fresh fish would be assigned to the seafood member of the Export Committee, who would not only use staff of the Rural Development Division, but also get technical advice from the Industry, Finance, and Program Divisions concerning such questions as financing for fishing ports, or transportation from the ports to the market, processing and freezing of fish, or the search for a market. He might either set up an ad hoc committee or seek advice from the various departments involved. In this manner all sections which were involved in a problem took a part in the decision-making process.

As has been previously described, the Joint Export Development Committee (ESPC) subsequently established by the Korean Government had a number of working committees. A staff member of A. I. D. was attached to each working committee in an advisory capacity.

In addition to the members of the Mission, the Commercial Attache of the Embassy was also a member of the A. I. D. Export Committee, and other Embassy officials would participate in its activities from time to time. Subsequently, a special Military Procurement Committee, consisting of representatives of the U. S. Armed Forces, the Embassy and the Senior Export Advisor, was established to assist the Koreans in selling their products to U. S. Armed Forces stationed in Korea and to Vietnam. There was also a joint Korean Government-U. S. Military Procurement Committee.

In order to give the program the impetus it required as well as to indicate to the Korean Government the importance that the Director attached to it, the Senior Export Advisor needed access to the highest level of government and business, and the continuous support of the Director. Almost immediately after his arrival, he was personally introduced by the Director to the appropriate Government Ministers, and to the heads of the major business organizations. The Senior Export Advisor at all times had direct, easy access to the Mission Director and Deputy Director. Their guidance and assistance as well as the quick decisions that could be made at this level, were of inestimable help in developing the whole program.

This writer had the good fortune to have many years of experience as a production engineer, construction engineer and businessman in a wide variety of enterprises, and also served as Industry Chief of the Marshall Plan in Italy and

special assistant in France and Germany for three years starting in 1950. This combined government, business, production and engineering experience, and previous development work in Europe stood him in good stead in developing the program. Similar broad engineering and business experience would be a useful asset to anyone who might be chosen as organizer of and principal advisor to an export program.

B. Learning the Problem

Since there had been no comparable export development program in the past, the Senior Export Advisor began his work gathering ideas and opinions from all possible sources, including an intensive reading program and discussions with every A. I. D. division chief. The Ministers of the Korean Ministries involved arranged for him also to meet their Division Chiefs. Further discussions were carried on with leading members of the banking community, of KOTRA and the various supporting agencies then in existence. He also talked with engineering and business school officials, and with economists.

The Advisor undertook a series of trips throughout the country, meeting members of the business community, the Chamber of Commerce, local city and provincial governors, mayors and officials in every locality. He visited more than one hundred factories, shipyards, mines, food and seafood processing and freezing plants, etc. In this manner he became familiar with the productive capacity of the country, and also obtained some concept of the technical needs of these production units.

An important part of these studies included learning the general history and culture of the country -- its religions, manners and philosophy. He visited many of the universities, attended lectures of the Royal Asia Society and visited monuments, temples and shrines. This general

education on the culture and history of the country helped him to understand which forces would influence change to a modern culture based on technology and business.

C. Contacts with the Business Community

Exports are created primarily by the manufacturers, traders, and general business community. Government can only formulate policies and administer incentives that stimulate the businessmen in this effort. While the Mission had over the years developed many contacts with specific industries, and with companies to which it had granted loans or assistance, there was no point in the Mission on which these contacts could focus. It was important that the business community, through its collective leadership, have a single avenue for exchanging opinions with the Mission. This avenue had to be one that afforded intimate contact, and also a sense of the interest with which opinions were received.

The Advisor spent a large part of the first several months meeting with the executive committees of all the major, and many of the minor business associations in Seoul and in other cities of the country. Out of this developed a regular series of small luncheon meetings with the key organizations. These were conducted without fanfare or publicity. The most important of these was a bi-monthly meeting with the Presidents of the "Big Three", the Korean Businessmen's Association, the Korea Traders Association and the Korean Chamber of Commerce. At these luncheons, the Senior Export Advisor was often accompanied by the Ambassador, the Mission Director, or by other senior members of A. I. D. and the Embassy. From time to time important visiting businessmen were also invited.

These meetings, in the course of the two years, proved extremely valuable and the businessmen repeatedly stated that they found in them a new and fruitful means of communication and a method of cooperation. In addition, to the joint meeting with the Presidents of the "Big Three", separate monthly luncheons were held with top staff of each of these organizations.

There was also a weekly luncheon with the President of the Korea Trade Promotion Corporation, and occasionally with other staff members. When the Korean Marketing Association was later established, it was included in the regular bi-monthly luncheons.

Of great importance, although it had considerably less power, was the Medium Industry Cooperatives Federation. This organization represented 65 Trade Associations with a total membership of approximately 7, 500 small businesses.

The Senior Export Advisor also attended meetings of the American Chamber of Commerce in Seoul, and met with Commercial Attaches of other countries represented in Korea. In addition, he had numerous unplanned meetings and luncheons with Korean businessmen, and with visiting American and foreign businessmen, and he became a member of the Seoul Rotary Club.

CHAPTER VII

GENERAL PRODUCT ANALYSIS

A. Product Selection

A rather complete survey of the products that were exportable was made. The Korean economic expansion program was being pursued on a long-range basis. In 1964 Korea was already half way through its First Five-Year Plan and was preparing the Second Five-Year Plan. The Economic Planning Board had the assistance of a first-rate A. I. D. staff, plus a consulting team from Robert Nathan Associates, and special consultants who were brought in from time to time.

The export program was divided into three sections: short-range, middle-range and long-range. The middle and long-range sections were influenced by and would in turn influence the capital investment program, which included incentives to attract foreign capital. Different sets of criteria were evolved for each of the three sections of export development. Both for the psychological and the economic gains that it would bring, the short-range program was given first importance.

Since Korea lacked the resources to promote every available product even in the short-range categories, a list of priorities was determined. A first priority was for the few natural resources available for immediate export -- tungsten, coal, clay, seafood and agricultural products -- since these were "instant" and 100% earners of foreign exchange. The major thrust, however, was in the direction of new products in the areas of processed foods and particularly manufactured goods, because significant increases in earnings could come only from the development of new activities.

The criteria for selecting products for the short-range program included: (a) high-labor content, (b) products for which labor could be quickly trained, (c) utilization of any existing idle capacity, (d) low capital investments, (e) utilization of native raw materials, (f) availability of international markets.

The last point was considered the most important. Many countries have tended to expand development of available products without sufficient attention to their marketability. In some instances markets were the determining factor for Korea even though all the other criteria listed above were not satisfactory. For example, Korea has developed a market for plywood, despite the fact that the country has no timber, that plywood manufacturing is a capital intensive industry, and that its quality demands skillful training of engineers and of labor. In 1967, she exported a total of approximately \$36 million of plywood, mostly to the United States. Another example is sweaters. Korea has developed a market in Sweden for approximately \$8 million per annum of knit wear. With the Swedish trade as an incentive and the knowledge and technical experience gained, the sweater market has now greatly expanded to many other countries. The initial development of the market in Sweden was almost an accident and could not have been foreseen in the early stages of planning export development.

There is a widespread misconception that low price, cheap articles represent the best possibility for export development from less-developed countries. While there are some possibilities in the initial stages, this is a poor area for competitive growth. Cheap items are often produced in developed countries by highly sophisticated, automatic, big scale machinery, so that their labor content

is small. Thus the comparative advantage of low-cost labor is lost in the direct competition. Since items which cannot be produced in developed countries without a substantial labor content offer a competitive advantage to low-cost labor, Korea decided to develop its high-labor input, light industries.

Consumer goods in the medium priced fields were promoted. This involved strenuous efforts to create the quality specifications demanded in this price level. Such articles as wearing apparel and accessories, tires, batteries, musical instruments, textiles, yarn (including silk and synthetics), footwear, leather goods, grass wall-paper, human hair pieces and wigs, eyeglass frames, bicycles, radios, and other similar manufactured articles were developed. Now a manufacturing industry is developing in durable and semi-durable items such as sub-assembly electronics, all purpose machine tools, diesel engines, pumps, electrical equipment and cable and auto assembly. All of the above are in addition to the increased development of new agricultural crops, and the processing of primary products of the extractive industries and of agriculture and fishing.

It is interesting to note that in those Asiatic countries with similar labor supply situations such as Taiwan, Hong Kong and Singapore, many of the same products are being developed for the same reasons and for the same markets. In countries where primary products, e. g. raw materials, are available, exports of these products have in some instances nearly reached maximum possibilities. Such countries include Iran, Malaysia, Thailand, Indonesia, and the Philippines. These countries also find it necessary to develop non-traditional exports of manufactured products or processed agricultural products.

In some instances, political pressures were exercised to give priority to some items not properly belonging on the priority list. Unfortunately, as is true in most

countries, there was a general tendency within the government to give preference to large scale industry and large traders who could exercise political influence. While the small and middle industry sectors could exert some pressure through their own organizations and the Chamber of Commerce, they were not as influential as the larger businessmen represented by such organizations as the powerful Korean Businessmen's Association. Nevertheless, on the whole, the priorities were arranged in logical order and most selections were based on the criteria established.

B. Dynamics of Change

During the course of the first year, a number of changes were made in the list of priorities as well as in targets for products or markets. Marketing conditions or some unusual situations could influence these changes. Such flexibility was possible because of the type of organization that had been established. Trade organizations and even private businessmen had a ready forum in EPSC to which they could present their requests for changes. They could appeal through their own trade organizations, to the working level committees, through the commodity chiefs, or through their general business organizations. The offices of the steering committee of EPSC were always open to them, where they soon learned that they could receive a sympathetic and confidential hearing.

1. The Case of Human Hair and Wigs

An example of the above is a situation that arose in the human hair wig business. Prior to 1964, Korea had been selling approximately \$1 million of human hair per year to the American market. Then, new styles in

the United States created a substantial increase in the demand for hair and wigs. At about the same time, in 1965, the U.S. Government determined that no more wigs could be imported through Hong Kong, which had traditionally been a large supplier. A good deal of Hong Kong's supply of hair originated in Communist China, and the complete ban was imposed because it was difficult or impossible to determine the source of the hair. Thus, a large market for Korean human hair and for wigs of both the handmade and machine-made varieties suddenly opened up.

The dynamic program made a flexible policy possible. The industry required new plants, new equipment, technical training, technical assistance, and quality-control guidance, as well as a shift in the target goals. The Light Industry Working Task Force (a subcommittee of EPSC), together with the representatives of the industry tackled this problem and were able to provide the necessary resources. The A. I. D. Mission, working with the U.S. Commercial Attache, was able to steer a number of interested American companies into working closely with Korean entrepreneurs. Some of the American companies supplied technical guidance and others entered into joint venture arrangements.

Within one year Korean wig exports jumped from \$1 million to \$13 million in 1966. In 1967 they rose to \$20 million. In 1967 the United States Government rescinded its total ban on Hong Kong products, establishing instead clear rules that required Hong Kong exporters to certify the source of human hair. By this time, however, the Korean exporters' market had been so well established that it was not much affected by the relaxation of imports from Hong Kong.

On the recommendation of the working task force committee for the hair goods industry, and because of the great increase in the demand for human hair for local production, the Korean Government forbade further export of unprocessed hair although this entailed some risk of losing their former customers for the raw material. In fact, Korean manufacturers had to search for other sources for human hair. They sent buyers to the Philippines and to Indonesia for this purpose.

2. Check (Minimum Legal) Prices

Concurrently with the wig market, there also developed a market for wiglets and eyelashes. The techniques of making eyelashes were comparatively easy to learn. They were produced in back-alley factories and in homes. The competition to sell this item became very great. Some companies were underselling the market at prices substantially below world market prices. In order to protect Korean industry against such situations, the government had given authority to the Ministry of Commerce and Industry to establish a "check price," a minimum at which any article could be exported. This was done for eyelashes.

Pressures to create check prices by the larger units within an industry were always strong. This would tend to diminish competition within the industry. But whether or not the concept of check prices had validity, in practice it became largely ineffective. The major problem was the difficulty of enforcement. It was comparatively easy for an exporter to make arrangements to give his foreign customer rebates on the documented price, provided the foreign customer was willing to accept local currency in Korea. While it was impossible to know to what extent this practice took place, the writer had enough evidence to believe that it was fairly widespread.

This suggests a general proposition. Regulatory measures of any kind should not be established unless it is clear that enforcement is feasible and will not do substantial harm, and unless adequate preparation has been made for enforcement.

3. Monopoly Privileges

Another step to protect new industries was an authorization to the Ministry of Commerce and Industry to grant a short-term monopoly to the seller of a new export. The MCI had the power to grant a six-month exclusive monopoly to such companies, and the right to extend this for an additional six months. It exercised this power with great discretion and only very rarely. Because the enforcement of this power was very simple, it presented no great difficulty.

In the case of wigs, a monopoly position was given to the Seoul Trading Company. The developing of the techniques and training of the unskilled workmen necessitated some protection in this case. The protection was not only in the interest of the company, but even more important, in the interest of protecting the reputation of a New Korean export product. If the first wigs leaving the country had not met the high standards required of this product, the whole reputation of Korean hair goods would have been destroyed and this could have been fatal to further expansion. Therefore, this protection was also useful to the future competitor of the Seoul Trading Company. Despite some complaints of favoritism, which may or may not have been justified, the history of the development of this industry testifies that this decision was justified. After the first year the monopoly was lifted. By that time other companies were capable of competing and the industry progressed. The power to create a monopoly is fraught with danger, but if exercised with discretion, it may prove helpful to export development.

CHAPTER VIII

PRODUCT DEVELOPMENT

To comprehend the great variety of problems and activities required in order to develop products for the international market, it will be useful at this point to examine some specific products, their problems and the solutions that were adopted.

A. Some Problem Industries

1. Mining

Mining and mining products had been developed early, both for domestic use and for export. In 1963, exports reached the sum of \$16 million, consisting mostly of coal, tungsten, iron ore, lead ore, zinc ore, molybdenum, talc and clays. For several years A. I. D. had financed a team of coal mining experts who had helped to build up and modernize the industry as well as assist in locating new coal beds. There also were new developments in zinc, and further development in copper, lead and tin.

Except in tungsten and coal, possibilities for increasing expansion were limited. It was necessary to improve productivity and to develop the second and third stage processing of ores. Processing could take advantage of Korea's low cost labor and give added value to the item exported. The technicians in the field recommended to the working committee an extensive, long-range program which required heavy capital input. Nevertheless, the Economic Planning Board decided to include most of this activity in the Second Five-Year Plan.

Transportation to the ports presented problems. The working committee recommended a single freight rate from the mines to the ports for all coal transportation. This was adopted by the government. However, projects for building highways from the mines to the ports, and for improving railroad transportation of mine products were considered low priority in the general economic picture.

The result of these efforts to improve processing and transportation became evident in an increase of mining exports to \$40 million by 1967 -- a relatively disappointing growth, however, from the \$16 million figure of 1963. The percentage of minerals in total exports dropped from 19.5% to 11% in the same period.

2. Ceramics

For many centuries Korea had a worldwide reputation for fine pottery. Silla, Korean Celadon and Porcelain are collectors' items. Celadon became a lost art in the 16th Century because most of the potters were taken to Japan where they were partially responsible for the development of the fine Japanese ceramics. Ceramic production required almost no imported materials and seemed a natural and profitable item for export. A wide range of tiles, ironstoneware, porcelain insulators, dishes, sanitaryware, and refractories were being produced for domestic use. Although Korea was exporting fine kaoline (a clay) in substantial quantities, her exports of tableware were minimal in 1964. Her own finished products were of poor quality and design.

The government established an ambitious export target, but to everybody's chagrin, only a small percentage of the target was achieved. The reasons for this failure were:

a. Because the ceramics industry was an old one, the major plants had old machinery and equipment, and used inefficient and out-dated techniques. Very few changes had been made in the methods of manufacturing for many years. A Japanese technician was assigned by the United Nations Technical Assistance program to the largest plant. A second plant had a Korean engineer who had been trained in the United States. They assisted, but were hampered by inertia, poor management and lack of funds for equipment.

b. The rise of the standard of living within Korea increased domestic demand for ceramics enough to absorb the increased production made possible by A. I. D. financing of some new ovens. Moreover, quality and design requirements of the domestic market were much more easily fulfilled than those of the international market. Despite oft repeated expressions of interest by management, it was quite obvious that they were not really eager to export. Indeed, one order which had been obtained by the largest company to export approximately \$1 million of tableware to the United States was never filled.

c. Because of pressure by the government, a small amount of exporting was done to the neighboring countries: the quality requirements of these neighboring countries made Korean tableware acceptable. However, none went to the mass, affluent markets of the United States, Europe or Japan.

d. While on the surface it would appear that the availability of domestic raw material would add to the attractiveness of developing exports, it,

in fact, acted as a detriment. One of the incentives given to manufacturers of exports was that they could import duty free raw materials necessary for processing for re-export. With the allowances for so-called waste and spoilage and by other devices some of the imported raw material could be sold on the domestic market. This created an extra attractive profit. Where no imported raw materials were required, this added incentive was non-existent.

After analyzing these reasons, the government decided on a program for corrective measures. The possibilities for large scale increase in exports justified an investment in both money and effort.

It was decided to establish a technical center in the Masan region (the area of clay deposits) which could develop the techniques of manufacturing and design. The center would also establish a small pilot production plant. Worldwide search for the latest equipment was undertaken and the new center was constructed.

This program was criticized as inefficient and as a long-range and expensive approach. Opinions were expressed that the impetus for this approach resulted from political pressures to create new bureaucratic institutions and jobs. Alternative programs were offered which involved supplying technical assistance, and providing capital for new equipment directly to existing plants. It was suggested that the only central technical activity should be a small design institution under the guidance of foreign market experts. Finally, it was proposed that a series of financial and tax incentives be developed which would induce manufacturers to give preference to export activities.

In the opinion of this writer, the best program would have been a combination of both approaches. A small pilot plant and technical training center in an existing

institution or a plant should have been established. In addition a vocational and engineering training program should have been developed and expanded in existing technical schools, universities, and through on-the-job training.

As of this writing, it is difficult to state categorically that the approach adopted by the government was incorrect. Only the future will make it possible to assess this activity.

3. Silk

The manufacturing and export of silk cloth was another example of disappointing results. Sericulture had been developed for many years during the Japanese occupation. The quality of Korean silk yarn is as good as any manufactured anywhere in the world. A first-rate quality testing laboratory grades every bolt of silk yarn that leaves the country, and is very strict in its requirements. In 1967 Korea exported almost \$15 million of silk yarn, mostly to the United States and Japan.

During the Japanese occupation there had been little development in Korea of the weaving industry. In recent years, however, rising labor costs in Japan were gradually reducing that nation's silk cloth manufacturing so that although a large inroad into the market had been made because of the tremendous growth of synthetics, a substantial world market for pure silk as well as for mixed silk and synthetic cloths still existed.

It appeared logical that a Korean silk weaving industry should be able to export large quantities of silk cloth. For example, the famous Thai silk is woven with a good percentage of Korean made yarns. In 1965 Korean exports in silk textiles only amounted to \$370,000, while silk yarn exports amounted to nearly \$7 million. The working task force and the Korean Trade Association were asked to make an analysis and prepare recommendations for improvement.

Despite the favorable circumstances, the effort to create textiles for export was not a success. The reasons for the failure can be explained by the following

a. Before 1964, under the then existing linkage system, exports earning the largest amount of foreign exchange were given a priority on the use of this foreign exchange for purchasing imports. They were thus either able to sell imported articles for extra profits, or to sell these priority dollars at a premium price. Consequently, the domestic sale of silk yarns to the textile industry was inhibited. After the stabilization program was effected, this extra bonus was eliminated, but nevertheless, many loan and credit facilities for exporters again made exporting of yarn more attractive than by sale to the domestic market even though domestic prices were higher than export prices.

b. Because the silk yarn exporters had been involved in this business for many years, they had a ready market and existing customers which they were reluctant to lose, and which, in many respects, were preferable to the domestic customers.

c. The jurisdiction over the industry was split between the Ministry of Agriculture and Forestry, and the Ministry of Commerce and Industry. The growing stage to the finished yarn stage was in the realm of the Ministry of Agriculture, while weaving cloth and finished products were in the realm of the Minister of Commerce and Industry. Each Ministry wished to create a good record for exports so there was a tendency by the Ministry of Agriculture to push exports of silk yarn. This split jurisdiction also created problems of policy and control that hampered the development in the weaving end of the industry.

d. Most of the equipment and factories in the silk textile weaving industry were old and inefficient. A great many of the looms were 36 inches in width, narrower than the trade requirements. The industry needed a complete overhauling.

e. Brocades and other silk designs and colors were made to suit the Korean taste which was different than the taste of the overseas market. New designs and new qualities had to be created. Most of the factories were small units operated by old management.

Parenthetically, it is interesting to note that the world taste which was developed since 1967 has increased the demand for the bright colors so popular in Korea, so that Korean cloth has been welcomed on the international market.

Because of the competing interests of the two sectors of the industry it was often difficult to make the necessary changes. Nevertheless, the government decided to allocate funds for investment in new looms and new equipment. Japanese technicians were brought into Korea to assist by giving technical advice, and some of the American chain store buyers assisted in creating new designs and colors suitable for the American market. For example, the representative of Macy's helped one of the factories create a new type of silk called Miari, which was similar to the famous Thai silk.

The silk industry demonstrates that it is more difficult to convert old industry to modern techniques, than to create new industries. Opinions were widely expressed that had there been less political pressure applied by the silk yarn manufacturers, the government could have taken the necessary steps to guarantee the flow of yarn to the

weaver at prices equal or lower than the export price. They could also have taken other steps which would have given more rapid acceleration to the weaving industry. It is difficult to assess the validity of these opinions.

4. Furniture

High-priced furniture should have been an item of export. Korea cannot compete with the mass production factories abroad. It could, however, enter the market of specially designed, custom styled items which constitute a high-labor input product. Korean cabinet-makers are extremely skillful and do beautiful work. The United States has a growing market for modern furniture with an oriental look.

On the other hand, the designs of Korean furniture made for the domestic market are not likely to be accepted overseas. In addition, lumber needed seasoning to prevent cracking and swelling when placed in heated rooms. Most foreigners were leary of buying Korean furniture for this reason. Recommendations were made that proper techniques be studied, that modern kilns be built to solve this problem, and that designers from abroad be brought to Korea and Korean designers be sent to foreign countries. These suggestions had not been carried out when the writer departed. Recently, a Taiwanese company opened a small furniture factory in Korea which has been expanding rapidly.

5. Canned and Processed Foods

The agricultural and fishery sector has not been neglected. An extensive program of diversified agriculture was being developed. New crops such as mushrooms, asparagus, grapes and other similar food products as well as the traditional crops of pears, ginseng,

apples and tomatoes presented good opportunities for developing an export business in fresh fruits, vegetables and in frozen and canned foods.

The cost of growing the crops was too high, despite relatively low labor costs. Taxes, spoilage, poor yield, and inefficient packing methods all contributed to these high costs. Actually, it was questionable whether producers really knew their costs on a single item. As interest in exporting developed, farmers reduced their prices to meet international competition. An intensive program of research, education and guidance was producing better yields and more varied crops, and at lower costs. Ripe apples were exported to Taiwan and were beginning to penetrate other markets. Korea has had a long established market for the export of \$10 million to \$15 million of seaweed a year to Japan.

While canned foods should have had a large potential for development, the problems encountered were so difficult that quick solutions were impossible.

One of the serious problems was the food habits of the Korean people. Canned foods were not used locally because their cost was too high for the average Korean. Besides, their traditional pickled foods such as kimchi supplied the needs for off-season green vegetables.

Another problem was high-cost of manufacturing tin cans. Unfortunately, the one can manufacturing plant was old and inefficient, and could not produce at reasonable prices. Moreover, Korea manufactured no tin plate, and imported the basic black sheet from Japan. Only one company was equipped to plate these steel sheets. Conflicts involving price, work and priorities

among the plating company, the can manufacturer and the canners prevented the development of a can industry which could produce at reasonable prices. As a method of forcing action, the government finally overcame political pressures and permitted the import of tin cans from Japan until such time as the industry could straighten itself out. Finally, the government financed new plants for this purpose.

The Korean Government succeeded in getting the U. S. Government to agree to provide one canned meal per day of Korean food (Kimchi) for Korean soldiers in Vietnam. This agreement provided for a guaranteed but temporary market, but was sufficient to induce a large investment in canning and processing for this particular market.

5. Antiques

Because Korea had not been a center of tourism and had been sealed off from the world, its antique items were largely unknown to the world market, and were not always considered of great importance by the Koreans themselves. Items of rare beauty and historical value were well preserved and well appreciated, but ordinary old but beautiful cabinets, pottery, lacquerware, paintings, screens and other items which were to be found in great numbers, were given little or no attention.

Japan has earned substantial amounts of foreign exchange through the exports of her antiques. She has carefully preserved the right to keep the important cultural items in Japan, but has permitted items of which there are many copies to be exported in controlled amounts with a system in which sellers obtain certificates of exportability in advance of sales.

Increased trade brought more visits by foreigners, and foreign retail stores were showing interest in Korean antiques. As the exports from Korea began to increase, a number of incidents of seizures by custom officials created an unpleasant reaction from foreign buyers representing big department stores. Regulations on export of antiques were not clear nor were the enforcement methods properly organized.

Because this problem has arisen in other countries, it is worth mentioning the discussions that took place in Korea. In the writer's last report to the Korean Government of 1966, he stated the following:

"The problem of the export of antiques and cultural objects has recently come to the forefront. This is a delicate problem involving national pride, and difficult analysis. It is reasonable, understandable and necessary that Korea keep within its borders rare objects of great historical and cultural value. Korea has a proud tradition, and its ancient culture should be preserved for the education and edification of its own people as well as visitors. Korea has good reason to be proud of the many beautiful, artistic and hand-made objects it has developed throughout the centuries. Objects that are unique and rare should not be permitted to leave the country.

"However, it is equally important to the world knowledge of Korean history, culture and tradition that Korean objects be exhibited throughout the world. Museums everywhere should have Korean art in their displays. Visitors to Korea bringing to their homes old and artistic Korean objects will enhance the knowledge of Korea, and

create the desire by foreigners to purchase and proudly display new Korean products. For example, in a recent display in a large American department store, old Korean chests were used as the background for modern Korean textiles. Silla, Celadon and Yi dynasty pottery could be used as the background for display of modern Korean ceramics.

"The problem is, therefore, one of selectivity . . . Great quantities of examples of lesser importance of pottery, statues, chests, books and paintings are available in Korea Thousands of such items can be exported -- still leaving thousands for domestic use. It should be made possible to export these items easily.

"The present rules and regulations are cumbersome, place responsibility upon the buyer rather than the seller, and to a great extent leave decisions as to the historical value of antiques to the individual judgement of the administrator of the rules and regulations. The procedures require lengthy time for processing of documents.

"Obviously, such an administrator will not wish to take the risk of granting permission for export which might result in criticism of his decisions. A policy should be established which will permit export of objects of lesser importance The definitions and rules must be clearly outlined

"It is also imperative that a single bureau or office be established where a dealer in antiques or an individual wishing to sell or buy antiques can obtain advance certification of eligibility for export. In that way the tourist or foreign buyer will have no hesitation when purchasing. In addition, this will be a method of preventing imitations and false copies being offered as genuine antiques."

B. Some Success Stories

Lest the foregoing give the impression that the problems were overwhelming, it would be well to describe a number of success stories. It must be emphasized that the overall program was in itself the success story. The few examples below will demonstrate the type of activities on individual products that made the whole story so successful.

1. Apparel Industry

The apparel industry had the greatest opportunity for rapid increase. It covered the whole range of men's and women's clothing and accessory items. The supply of textiles and skilled labor were ample. Investment capital requirements were small. High labor input brought more foreign exchange earnings from apparel than from the export of textiles and yarn. Apparel can be made by both large and small entrepreneurs. Korean exports of knit goods had already begun to show substantial increases. Korea was exporting approximately \$8 million per year to Sweden in this item alone.

The working committee for the apparel industry, the Ministry of Commerce and Industry, and the industry itself were given the task of presenting a plan for development. A. I. D. financed the cost of bringing in an expert in the men's garment industry. He made a careful

study and many recommendations. A. I. D. also sent a team of Korean technicians to study the industry in Japan, Taiwan and Hong Kong. Hong Kong, with a population of 4 million, has developed a clothing industry of large proportions. In 1967 about half her total exports of \$1, 250, 000, 000 were in items of apparel.

A major effort was made to interest foreign buyers in clothing. The products were promoted in all the centers in the world, and buyers were invited to come to observe the products being made in Korea. These buyers also provided much technical guidance.

One of the most serious problems that arose concerned delivery time which is very important in this industry. Styles change frequently and lead times are small. Obtaining raw materials from Japan when needed was difficult because government regulations prohibited purchase of raw materials prior to obtaining a letter of credit for exporting the finished product.

The working committee recommended and the government finally permitted stockpiling in advance of purchase orders, provided that 30 percent of the value of imported goods was deposited. While this method was not completely satisfactory to apparel makers, it was helpful. The reason for the deposit, was to discourage imports and to encourage the use of domestic textiles.

It was recognized early that very low priced items could not be produced competitively. Where labor input was small the advantages of low-cost labor were negligible. Therefore, the general policy was to emphasize middle-priced items. This entailed attention to quality, design and packaging.

The United States Armed Forces assisted in the development of this industry by agreeing to permit Korea to manufacture large orders of fatigue uniforms for the Vietnamese Army. This agreement was based on a commitment by the Koreans to meet international price competition. The Korean Army also maintained its own factory for the manufacture of uniforms for its own soldiers. Soon the training and knowledge gained in this manner helped lead to successful exports of dress shirts, slacks, raincoats and accessories. Korean apparel now appears in most of the markets of the world and particularly in the affluent countries.

2. Footwear

Rubber and leather footwear, and other leather products presented another field in which there was an excellent potential for further growth. Two employees of an American company assisted several Korean companies in developing the techniques, styling and productive capacity to make possible large purchases by their company. We have been informed that the American company is now purchasing three million dollars of leather, canvas and rubber footwear annually. The industry has also benefitted from substantial orders for jungle boots for the Vietnamese Army.

3. Handicrafts

While items made in handicraft shops by artisans or craftsmen on an individual basis can never be exported in such quantities as mass-produced goods, they are significant in creating a favorable image, and an atmosphere for acceptance of other goods from the exporting country. They can also generate sizeable foreign exchange earnings. Exports of these tripled between 1964 and 1967.

Handicrafts are also important to the economy because they can assist in developing employment for workers who would not otherwise be drawn into export-oriented industries. A great many are part-time workers, including women and youth, who can work in their homes or in nearby small factories on a part-time or seasonal basis. Handicrafts can provide supplemental earnings during the winter season in the farm areas. In a country such as Korea where intelligent workers have great manual skills and aptitudes, and are quick to learn, this industry is particularly useful. It generally requires little capital investment, raw materials or financing.

Traditional handicraft products were encouraged including such items as beads, embroidery, straw products, lacquer products, small wooden jewelry, precious and semi-precious stones and mother-of-pearl, and many other similar items.

The National Association of Farm Cooperatives, a subsidiary of the Ministry of Agriculture devoted to assisting small farmers, had a handicraft division. This association acted as a guide and a marketing organization for farm handicraft products. In the same manner, the Handicraft Industry Association acted as a cooperative for non-farm produced handicrafts. The United States Army's PX system, and tourists provided a local market and testing ground for these products.

An example of a development process undertaken by a community was that of a small town in central Korea which set up a school for manufacturing small glass beads and products made with beads. Unfortunately, the town was not aware of the type of products that might be marketable overseas and devoted a good deal of attention to producing items that could only be acceptable to the Korean

market. After a visit by the A. I. D. handicraft expert, it began producing beaded bags and other items for export. Eventually, production increased many times.

Another example was a project of the Foster Parents Organization. Through a small gift of \$500 they were able to rent a loft. With the cooperation of a Korean company they taught 200 widowed mothers how to produce hand-made fishing nets which were then purchased by this company for domestic use and for export. There were many other such examples of self-help organizations that were created in this field. Quoting from the writer's report of October, 1966:

"There are three classes of goods involved in this industry. They include at the first level, inexpensive souvenir items; at the second level, moderately priced, popular gift items sold in the better department stores; and finally, at a very high level are the artistic goods sold in limited quantities in quality stores and art galleries carrying the most expensive items. The souvenir items can be semi-mass produced, providing the designs are acceptable. This, plus the middle level, presents the best opportunity for real growth.

"The basic problem in this field is one of design. Korea has many unique and beautiful products. Unfortunately, many of them are not acceptable to the tastes of the foreign buyers. There is a tendency among Korean manufacturers to imitate handicraft of other countries. While it is possible to accomplish this, obviously the countries in which the designs originate can do a better job. It is necessary to produce articles with the Korean imprint, yet with designs that

will sell abroad. It is, therefore, recommended that consultants or advisors in the various areas be brought here. They should be those who understand the market and will work with Korean manufacturers, craftsmen and artists who themselves will create the new designs. To import designers would not develop Korean designers. For Koreans to travel to other countries will only create imitations. There have been recent suggestions that Korean teams go abroad for this purpose. This should be discouraged."

4. Embroidered Handkerchiefs

A small but interesting story regarding the development of a product with very high labor content, and in which the unique hand skills of Korean women could be utilized is the following:

For many centuries Soochow (China) has been known as a center for a specific type of fine embroidery. With the closing of exports from China to the United States, the sale of these items in the United States had almost disappeared. These items consisted of gift items such as handkerchiefs, tablecloths, and accessories.

An American company specializing in handkerchiefs was eager to obtain a new source of these items. This company had a sales volume of approximately \$8 million in standard handkerchief products. The gift line was supplementary to their regular product, but represented a high profit potential.

The representative of this company had found in Hong Kong, a number of former residents of

China who were skilled in this type of work and were willing to come to Korea as trainers. Ten teachers from Hong Kong trained 100 Korean women. The women trainees were each taught one type of embroidery. It required several workers to complete an item. Each woman upon completing her training was sent back to her village to train ten other women. Thus, the plan was designed to build up approximately 1,000 skilled workers.

The producer introduced a completely new concept into on-the-job training programs in Korea. In the first place, he supplied comfortable, well-lighted and heated space in which the trainees could work. Second, he paid them a salary during the learning period. And third, he invested the money necessary for this whole development process, gambling on its future success.

It was estimated that the training process would take approximately one year. The American producer was fearful that the products of improperly trained amateurs would begin to be exported and would then create a poor reputation for this product. The designs and quality were keyed to the successful marketing of this product. He, therefore, asked the Korean Government to give him a monopoly position for one year during which he would export nothing. Because he was a foreigner there was some difficulty in obtaining this privilege. However, the government finally established this monopoly in his favor.

There were many trials and tribulations, and the volume of production never became as great as the producer originally planned. Nevertheless, at the end of the year, he was beginning to export fine embroidered handkerchiefs and was planning to produce other similar items.

5. Foreign Investment in Sub-Assembly Industries

During the early stages of the export drive the emphasis was on industries developed by Koreans with their own funds. As trade expanded, the Korean Government also made a determined effort to attract foreign investments into the export industries. An attractive foreign investment inducement law was passed, and a drive to attract foreign investment was begun.

Special efforts, including an industrial park, were made to attract successful Korean residents of Japan to open factories in Korea. A number of American buyers interested in creating a new source of supply were involved in joint ventures or wholly owned investments in nylon, pharmaceuticals, handkerchiefs, sweaters, human hair wig factories, and clothing manufacturing.

In 1967, the drive for these investors began to produce important results. A number of American electronic manufacturers established sub-assembly factories in Korea. These included such major companies as Signetics, Motorola, Oak Electronics, Fairchild, and Raytheon, all of whom invested substantial funds. These new industries were particularly important and effective to the development of both manufacturing and exports. Seeking low-cost production, they brought in valuable techniques, personnel training and their own built-in export market.

Recent statistics indicate that exports of electronic components and finished products are increasing rapidly. The export program of Korea was not developed initially through foreign investments and could probably continue growing without them. Nevertheless, the continued input of foreign capital in this area can be significant.

CHAPTER IX

PRODUCTION PROBLEMS

Korean industrial management was generally inexperienced in the international competitive requirements of quality, design, packaging, specifications, and pricing. Major problems in technical development, equipment, productivity, and cost accounting remained to be solved through a broad attack by both government and industry on a commodity-by-commodity basis. While many of these problems were interrelated, we will describe below measures that were taken to solve some of the individual problems.

A. Cost

1. Price Determination

Inexperience and lack of knowledge made cost accounting of very doubtful accuracy. Even some of the larger companies, which may have known their overall company costs, often had no accurate item-by-item statistics. In some of the better managed plants it was sometimes difficult to estimate the cost of new items accurately.

With little experience in manufacturing new items, and almost no experience in volume production, Korean companies were influenced by other factors than actual cost in setting prices. In practice, the major factor was international competition.

Because of the incentives and the propaganda impetus, Korean companies were eager to begin export business. In the early stages, they often based estimates

on the prices established by Japanese competition. It was generally understood that Korean goods could only be acceptable if prices were approximately 10 to 15 percent lower than the Japanese prices. The additional cost of transportation, plus the unknown or poor reputation of Korean quality made this margin necessary. As the quality and reputation of Korean goods improved, a smaller price differential was acceptable.

An interesting cultural note is that despite a long period of animosity, the Koreans used the Japanese production unit or cost unit as their standard. It was almost unheard of to use a unit of measurement from American, European or other areas, even though these might be areas of specific competition.

In addition to the above practices, price could often be determined by the customer. The "bargain hunters" and the irresponsible "one time" buyer would sometimes talk prices down below the level that would cover reasonable costs and quality. This was one of the reasons for attempting to interest international buyers from the large responsible chain stores and wholesale houses. Such buyers seek a continuing source of supply and recognize that bargain hunting makes this impossible because companies must meet costs, and will cut quality to do so if prices are driven down.

The actual sale price often bore little or no relationship to the actual cost. Despite poor accounting methods, however, common sense bookkeeping and experience eventually gave the producers some understanding as to whether or not they were making a profit from the item sold. Consequently, there was a tendency to increase prices after the first orders were completed. This would irritate larger and more responsible customers who expected lower prices as larger orders were given.

As in many countries of the world, there was also a tendency to fix prices through cartel arrangements, check prices, and other devices. The government itself was, despite lip service to the contrary, encouraging these practices. New or small scale producers would sometimes undermine the market by selling far beneath world market prices, and often substantially below their costs. This practice could destroy or seriously injure those producing units which were selling at legitimate prices. On the other hand, cartel or fixed-price arrangements tended to maintain inefficient producers in business, and deterred further introduction of more efficient operations by these already profitable producers.

Despite the dilemma described above, more efficient production methods and business practices gained headway in the long run.

2. Cost Accounting

The advantages of exporting were sufficiently great to create an interest in better cost accounting methods. This interest gave a boost to an activity which had started some years before the export drive, when a national accountants organization had been formed with A. I. D. encouragement and advice. Among other activities it held a series of symposia and, with the assistance of outside help, carried on studies designed to educate its members. The business schools of the universities, with the help of Koreans who had studied abroad, established advanced courses in accounting practice.

A. I. D. offered assistance through its Controller's office, and a number of local employees who had worked for A. I. D. moved into the private sector in Korean accounting and business firms. A. I. D. also suggested that international accounting firms open offices in Korea and that the Korean Government grant them licenses to

operate there. As of the writer's departure from Korea, this had not yet been done. In 1966 the International Business Machines Corporation (IBM) was planning to open an office in Korea and to introduce business machinery and machine accounting methods into the country.

B. Productivity

As was described in the preceding chapter, old factories in developing countries are almost inevitably the slowest to adopt new methods and techniques. New factories are equipped with late-model machinery and imported techniques and methods from the more advanced countries. A number of these modern plants obtained their technical guidelines by employing foreign technicians by sending Koreans abroad to study or by joint ventures with foreign companies.

More and more Koreans travelling abroad and more and more customers coming to Korea, plus the demands of competitive international business, began to appreciably influence the desire for increased productivity. Factory efficiency obtained first priority. Office efficiency and marketing were not considered equally important, and improvements in these came later.

Personal work habits and attitudes favored productivity efforts in Korea. Koreans have a remarkable attention span, good work systems, and much ingenuity. They regard hard work as the norm. Thus, with reasonably good management, the labor force tends to be highly productive.

The first phase of increased productivity was to increase the individual efficiency of the worker. With some notable exceptions, the well-being of the workers was given little attention as a factor in efficient production, despite its relevance. Safety and health measures, and worker comfort were neglected. Centuries old traditions and the existence of a high percentage of under-

employment made it easy to give safety and comfort less attention than they deserved. Progress here will probably be difficult to achieve.

1. Korean Productivity Center

Several years prior to 1964, the Korean Productivity Center had been organized with government funds and with financial and technical assistance from A. I. D. It had to develop its own staff as well as to convince industry to make use of its services. At first, most of its services were donated without cost. Its original efforts were properly directed toward management. It conducted seminars, management training courses and other related activities. In 1963 the Center obtained a team of seven technicians from the International Labor Organization (ILO). It was also affiliated with the Asian Productivity Center headquartered in Japan.

By 1964 its services were beginning to be more widely utilized, and it began to charge fees which partially covered the costs of its activities. The emphasis on management training continued, although the need was now for more factory, job level efficiency training. Unfortunately, both in the factories and on its own staff, there were too few experts in specific phases of production line work. As the ILO assistance was phased out, A. I. D. undertook to supply technicians who were equipped to give assistance in factory and marketing techniques. Their help was one of many factors which led to an appreciable increase in the general productivity of Korea's industry.

2. Taegu Regional Development Activity

One development in the field of industrial productivity work deserves special attention. The city of Taegu is the fourth largest industrial center in Korea, containing sixteen factories which are large by Korean

standards. In addition to these are many small plants manufacturing items such as aluminum ware, hardware, textiles, chemicals, and foundry products. The city is also the center of an agricultural area that grows large quantities of tomatoes and apples.

The leading factory is a textile weaving plant, Che-il Weaving Company, which is part of a great variety of enterprises owned by one of the wealthiest men in Korea. American experts who have seen the plant rate it as one of the finest in the world. In 1965, it employed approximately 3,000 workers, produced top quality woolen cloth, and exported large quantities including approximately three million dollars' worth annually to the United States. Its manager was a first-rate textile engineer and executive, who also had a social conscience. Its women workers were well housed in warm and clean dormitories, and worked under good conditions.

Under the leadership of Che-il Weaving Company, an industrial association was organized which included in its membership the 16 large plants, plus the Chamber of Commerce and the local, provincial and municipal authorities. The association established a small, independent productivity center and asked A. I. D. for assistance, indicating its own willingness to provide self-finance and self-help. A. I. D. agreed to supplement their program by furnishing six factory technicians -- a foundry expert, sheet-metal expert, chemical production expert, cost accountant, quality control engineer, and a tool and die engineer. Unfortunately, A. I. D. /Washington was never able to recruit all of the six technicians promised, but did furnish four technicians who worked in the area for over a year. The local committee supplied seven Korean assistants and technicians as staff for the productivity center. In addition, staff members of A. I. D., including the Senior Export Advisor, assisted with seminars, lectures, etc.

At A. I. D. 's urging, the local committee included a representative of the engineering college and vocational training schools of the community. In this manner it was hoped that the formal training in the Taegu area would be geared to the needs of the local factories. Unfortunately, the local industrial community had no real understanding of the necessity for the educational phases of the program.

A. I. D. had urged the use of the quality control division of Che-il Weaving Company as a training school for quality control engineers. While Che-il permitted visits and organized occasional seminars, they did not agree to full-time training on their premises. The city, with some assistance from the national government built a first-rate testing laboratory which was made available to local industry, and A. I. D. furnished some of the equipment.

Achievements of the Taegu Regional Development Activity were quickly visible in improved production methods, and training of local engineers. The business community was enthusiastic and pleaded for continuation of the program. The spirit of self-help soon spread to other areas of Korea, which started to form similar programs.

C. Quality

Meeting international competitive requirements for quality was and in some aspects still is one of the major problems of export development. It is generally so important in any of the less developed countries, that its treatment in Korea will be spelled out more fully than that of some of the other production problems.

Since Korea's major export advantage is low-cost labor, she could not compete in items for which tech-

niques of large scale mass production had been developed in the advanced countries. Items with comparatively high labor content are predominantly in the middle and high priced range. Quality specifications for these are more stringent, and are particularly important to their acceptance. Inexperience, poor techniques, poor equipment and lack of knowledge all militated against good quality. Without good quality, Korea could not compete, and therefore, could not export at all.

The achievement of quality was tackled from two angles. One was to attempt to prevent the export of items that did not meet general quality standards, and also those that did not meet their contract specifications. This is basically a policing and preventative operation.

Quality cannot, however, be inspected into a product; it must be built into it. Hence, the second angle was to develop techniques at the factory level which would ensure quality goods. Scientific quality control is a comparatively recent engineering science. In mass production it is based on a method of statistical samplings. Since mass production demands complete interchange of identical parts, and pieces are not adjusted in order to fit together, the old methods of individual inspections of both parts and assemblies serve no purpose. Sampling can reveal whether parts are identical. Such quality control depended on the adoption and use of international standardization procedures that would not only create domestic standards, but would also raise Korean products to meet international requirements.

Four institutions, plus a number of private industry cooperative organizations, were involved in the process of creating quality. First was the Korean Productivity Center described above. Others were the Korean Standards Association (KSA), the National Industrial Research

Institute (NIRI), and the Quality Improvement and Technical Assistance (QITA) division of NIRI, which was the government-established export inspection system. The first three of the above named institutions had been in existence prior to the beginning of the export drive, but the Joint Export Development Committee (EPSC) made many recommendations for improving their work. The QITA inspection division of NIRI was established upon the recommendation of the EPSC.

Below are descriptions of activities of the three organizations not previously discussed, and of the private industry cooperative associations.

1. Korean Standards Association (KSA)

The Quality Control and Technical Assistance Working Task Force of the EPSC recommended to the Government that funds be provided to translate international specification guidebooks into the Korean language for use by Korean industries. The United States Armed Forces made available the standard specification requirements, and the American Society for Testing and Materials (ASTM) and the Society of Automotive Engineers (SAE) standard books of reference. KSA also used specifications of Japanese standards, and the American Fire Underwriters inspection requirements.

This work of translation and distribution was expensive and laborious. KSA was subsidized by the government. Its budget and staff were inadequate for the great task it faced. Nevertheless, a great deal was accomplished, and its services were increasingly used by Korean industries which were authorized to use a KSA stamp if they met the requirements of KSA.

2. National Industrial Research Institute (NIRI)

This institute was the major materials testing laboratory for the country. It was established in one of

the engineering buildings of the Seoul National University (the leading university in Korea), and was supplied with new equipment through A. I. D. financing. It was staffed by Korean engineers and laboratory technicians, many of whom were trained in the United States.

Despite its first-rate equipment and staff training, NIRI was not as efficient as it should have been. A. I. D. had assigned a staff engineer as a part-time advisor to NIRI. His advice helped bring continuous improvement of its services. The United Nations also supplied technical assistance in the form of a full-time advisor to the electrical division.

A constant program of education, propaganda and information was necessary to convince industry that it needed this valuable testing laboratory as a part of its own production equipment. NIRI charged fees, but these fees only represented a small percentage of the cost of the services rendered. However, it was felt that if a charge was made for the work, producers would be more likely to learn an appreciation of it.

Other laboratories served individual industries in other parts of the country. The Ministry of Agriculture maintained an agricultural inspection laboratory. There was a seafood inspection service in Pusan. As described previously, the city of Taegu had its own inspection laboratory. A number of the newer factories were equipped with laboratory testing instruments. Some of the more advanced management made good use of their own testing laboratories, but many of these were only showplaces, used insufficiently or not at all in daily practice.

As time passed and technical knowledge and trained personnel became more available, the use of national, local and private testing laboratories was much increased, and these came to play an important role in quality development.

3. Quality Improvement and Technical Assistance Division (QITA)

Early in the export campaign, a review was made of the entire quality inspection system for exports, by Dr. Neil Beck, the A.I. D. quality control engineer. He reported a weak system operating in seven separate divisions, some under the government and others under private trade associations. Divisions varied from excellent to very poor, with most classified as inadequate.

Upon the recommendation of the Joint Export Development Committee (EPSC), the Ministry of Commerce and Industry required a government inspection stamp on all exports. A special division within the Ministry was made responsible for enforcing this regulation, and at the same time a division (QITA) in NIRA was established as the authorized export inspection department of the Korean Government. At the request of the Ministry, A. I. D. assigned Dr. Neil Beck to be advisor to this activity. In many instances the inspection requirement had been established before the inspection facilities and organization were adequately equipped to carry out their duties. In some instances, these hasty designations deterred the program rather than advanced it. Gradually the regulations became a reality, and more and more items were required to obtain inspection and approval before they could be exported.

A. I. D. also brought in a full-time quality control advisor, Mr. John Jacobsen, who visited hundreds of companies to advise them on methods. He was instrumental in organizing a quality control association, which sponsored a major public showing of quality control methods that was partially financed by A. I. D. He also organized seminars and study groups throughout the country.

Very important to the program were the activities of both the temporary and permanent representatives of foreign buyers. Some buyers assigned full-time technicians to assist producers in quality control. Such activities were promoted by A. I. D.

A. I. D. also financed two trips by teams of Korean technicians under the guidance of Dr. Beck, to study the methods used in Hong Kong, Japan and Taiwan. A summary of the recommendations made by those teams and by the EPSC working group on quality control is given below under Item 5 in this section.

4. Private Industry Inspection Associations

Some inspection services were organized by private industry associations. In principle, this method should be very effective. People who are involved in the industry are the ones who should best know its problems and requirements. Unfortunately, self-policing does not always work. In some instances the director of the inspection services was himself a producer and was in effect directing the inspection of his own and his competitors' products. It became evident that where a cooperative inspection organization existed, the inspection services had to be completely independent from the control of the industry, and under the regulation and guidance of the government. It was also essential that the staff be adequately paid and not on the payroll of any of the companies involved. The temptations for corrupt practices had to be completely eliminated.

The Ministry of Commerce and Industry had determined at one point to permit first-rate factories with good inspection services and records to export without government inspection. While it is undoubtedly true that the best type of quality control is by self-

discipline and by the customer's acceptance of the product, nevertheless self-inspection sometimes leads to carelessness and a lowering of standards. It was suggested that in cases of this nature the government may not require a full inspection, but should make spot checks at frequent intervals to make sure that the standards are maintained and specifications complied with.

The best method is where an industry has well-established standards, a history of understanding and acceptance, and an organization of self-discipline. For example, the silk yarn industry was an old industry that was established by the Japanese during the occupation of Korea. The industry maintained an inspection laboratory and every pound of silk yarn was graded and marked before it left the country. The laboratory had a well-trained, efficient staff, and was very strict and independent in its enforcement.

Korean silk yarn was in competition with Japanese yarn and the grade marks had to meet international standards. The laboratory was partially supported by federal subsidies and partially by fees paid by the producers. This was a profitable and well established industry, and the quality inspection and grading was essential to continued international acceptance and the prosperity of the industry. Actually, there was no reason why it should have been subsidized by the government except that without government subsidies the laboratory would be completely beholden to the industry itself and thereby might lower its standards.

5. Recommendations of QITA Study Teams and
EPSC Quality Control Working Group

- Branches of present textile inspection and testing cooperatives in different cities, should be brought under centralized control.

(This is the recommendation that has been least implemented.)

- Inspection and testing fees should be standardized.
- A plant classification system should rate plants according to their effort and success in establishing quality control and inspection procedures. Plants which maintain top-level inspection systems should be granted automatic approval of their products, but this must be carefully controlled in order to prevent deterioration.
- NIRI, however, must still be the central control organization and should take over entirely the weaker cooperative inspection services. Eleven commodities have been placed in this category through August, 1966, but more should follow.
- No cooperative service should be certified until there is adequate financing, staff and facilities, as well as complete legal and administrative freedom from the product manufacturers. In most cases, continued ROKG subsidies will be required until complete financial independence can be achieved by an individual cooperative inspection services.
- A single centralized, complete authority and approval agency for export inspection must be established. At the present time the Ministries of Industry & Commerce,

and of Agriculture, the Office of Monopoly and others have this responsibility for different products. This creates confusion and varying standards.

- No waivers of inspection of products which are on the Ministry of Commerce obligatory test list should be allowed for any reason whatsoever.
- The combination of technical assistance, productivity and technical laboratories has begun to function. The Taegu Plan should be repeated in other cities.
- On -the-job training programs in the better factories should be organized in cooperation with technical high schools, universities and colleges.
- The Korean Standards Association (KSA) should be given sufficient staff to handle frequent review of specifications in order to establish a more effective basis for KSA certification.
- Personnel specially trained in their posts should not be shifted to other jobs. Since February 1966, there have been transfers on two occasions from the job of chief of the Export Inspection Section of the Ministry of Commerce and Industry. Both men had been specially trained in export inspection and had participated in A. I. D. -funded team visits overseas.

- No industry should be required to obtain export inspection approval until the inspection facilities and staffing in their area are adequate for this purpose. Hasty designations without proper facilities to carry them out can only harm the program rather than advance it.

During the writer's trip throughout the world, the question of quality of Korean products was continuously called to his attention by importers of Korean goods. In too many instances even the label of the Korean Government's inspection services was not a guarantee of quality. The overseas trade missions and embassies continuously alerted Korean Government officials regarding this situation. As a result, great improvements were made. Even in the short period of the two years the improvement in quality of Korean goods was noticeable. The combination of tightened government inspection, self-discipline, and education and customer demands were obviously having their effects. The best proof of this was in the increasing volume of Korean exports. It is quite obvious that, despite some complaints, the Koreans could not have increased their overseas sales unless the quality requirements were continuously improving and the products were meeting their customers' demands.

D. Product Design and Packaging

In a country which had had little or no contact with the outside world the design of products was determined by tradition, habits and domestic taste. The export development effort dealt with three types of problems concerning design:

- Adaptation of some products which were unique and original to Korea, and which

she wished to sell on the international markets as new items for those markets.

- Consumer goods which were being manufactured for domestic use but were Western in their origin did not meet the latest style and design requirements of the international markets.
- Packaging, which plays such an important role in consumer goods markets, was completely foreign to Korean producers.

1 Adaptation of Indigenous Korean Designs

Articles of original Korean design presented a unique and difficult situation. Old crafts developed by native, back-alley craftsmen were produced in small factories and sold to tourists and American GIs. These sales led to the belief that local designs were acceptable internationally. Many of these items were of exquisite and unique beauty and fine workmanship, but did not have widespread acceptance on the international markets. Some enterprising traders brought in samples from Japan and other countries which Korean craftsmen imitated for sale overseas. In most cases, the customer could obtain better quality from the original source. What was required was to modify the basic Korean designs to make them acceptable to the Western market.

From 1960 to 1961 A. I. D. had financed a handicraft design center, which did good work in creating new designs in some items. The design center did not, however, create a sufficiently large number of Korean des-

igners who could develop their own designs. Korean craftsmen and artists were exceedingly skillful, and given the proper training, could undoubtedly create new and acceptable items.

The Light Industry Working Task Force of EPSC established a sub-committee on style and cottage industries which recommended to the government that a design expert be brought to Korea to assist in training Korean craftsmen and designers. A. I. D. supplied such an expert who was market-minded. In addition, the committee recommended the establishment of a cottage industry and style design center which the government set up. A number of universities also established design and research centers, particularly in the field of ceramics. The U. S. Armed Forces PX system furnished both a market and a testing ground for Korean consumer products designed for export.

The history of the development of the famous Thai silk is an outstanding example of adaptation of the product of an old traditional industry. An American officer who had been stationed in Thailand during World War II recognized the beauty and quality of this silk, and its export potential. However, he also realized that the colors and designs were not internationally acceptable. Using native skills, he assisted the Thai's in redesigning their silk, and offered to the world what has since become an internationally famous product.

In Korea, A. I. D. brought in an expert in merchandising to prepare plans for a shopping center for cottage industry and handicrafts similar to one set up by the Indian Government in New Delhi. Unfortunately, his proposals were never put into practice. The basic purpose of this center was to encourage tourism which we will describe in a later section.

2. Designing Western Goods for Western Markets

The second set of problems concerned with meeting the design requirements of standard, mass-produced consumer products for the Western markets, were more important than the handicrafts problems.

Such items as shirts, clothing accessories, shoes and other wearing apparel, floor coverings, wall-papers, eyeglass frames, and even such manufactured items as baseball gloves, bicycles, etc. were involved. In many instances Korean producers were unaware of the necessity of investing in highly skilled designers. An American mail order catalogue was often used as the source of their designs for Western goods. The designer was usually a factory mechanic one step above a line workman.

The overseas offices of the Korean Trade Promotion Association played an important role in gathering samples and sending them to Korean producers. Frequent trips by individuals, and teams of Koreans to overseas markets gave them further knowledge of design requirements.

As with quality control, consumer goods buyers could often be persuaded to help. Representatives of the large scale consumers and world traders were often sophisticated and knowledgeable regarding the problems of developing countries and were prepared to assist developing industries to meet their requirements if they foresaw a new inexpensive source, and they observed a product which approached the necessary requirements. They would furnish samples and ask the producers to imitate them. In many instances they would spend time and effort in the factories to instruct them in designs, as well

as the quality desired. In some instances they were willing to supply full-time technical assistance.

A third approach was for Korean industries to produce samples that could be sold, either by traveling representatives or displayed in Korean trade centers.

The writer made a survey of the American markets after which he proposed a special approach to the problem of selling designs -- namely the establishment in New York of a clothing style center, which could create and present original designs in a manner similar to that of many American clothing manufacturers. This idea required considerable further study to determine whether it would indeed, serve to increase the market for Korean-designed clothing. Such a study was never done. Israel and other countries have used this method. Hong Kong, on the other hand, has had a phenomenal success in exporting apparel items for which it relied chiefly on designs created by its customers.

3. Packaging

The third phase of design is packaging. Because packaging is so noticeable, it is almost invariably mentioned in discussions on export development. It is an important problem, but should not be given more attention than it deserves, since it is only one of many involved in export development. Packaging serves two purposes. One is to make the product more attractive and saleable when placed on the store shelf. The other is to protect the product from injury during transportation, and until it is delivered to the ultimate consumer.

Most packaging knowledge came as a result of imitation by Korean producers of Western packaging methods and designs. The Korean Trade Promotion Corpor-

ation (KOTRA) devoted considerable attention to this subject. In addition to publishing articles and pamphlets it ran an annual Packaging Fair, to which the Korean manufacturers and producers were invited to study and observe displays of packaging gathered from throughout the world. The A. I. D. Mission was fortunate in having on its staff a man well qualified in this area. He assisted KOTRA in this program, and offered some direct technical guidance to firms.

The introduction of foreign goods to the Korean domestic markets began to create a demand by Koreans themselves for certain packaged items. This helped to stimulate a knowledge of the design of and an improvement in the quality of packaging. Other education about packaging came through visits abroad and from customer suggestions, including the impact of the large number of American soldiers and civilians living in Korea.

The problem of packaging for protection did not receive quite as much attention, particularly in the area of food products. For example, Korea exported quantities of apples to Taiwan. Improper packaging caused approximately 30 percent of the apples to be bruised or frozen. They were packed on or near the farms, where adequate knowledge about such a simple technique as placing the apples in layers in the boxes was lacking. There were similar problems with other products.

E. General Conclusion on Problems of Cost, Quality, Design and Packaging.

As can be seen from all the above, improvement in figuring cost and setting prices, together with concrete problems of quality, design, and packaging cannot be solved by one simple program. Essentially, and in its broadest terms, it is an educational process. The impact

of customer requirements is the major factor in creating improvements in these areas. The process can be speeded up by introduction of technical assistance through government efforts and by the private sector. Korea still has a long way to go in solving her quality problems, but she has made great strides in the last several years.

CHAPTER X

OTHER PROBLEMS

Many of the problems that arose in the course of the Korean Export Development Program were inter-related. In the interest of those readers who may wish to concentrate on only one of several given problems, we will attempt to cover each separately.

A. Red Tape

In addition to creating positive incentives, it is also necessary to attempt to eliminate road blocks. Among the most universal of these are the time-consuming and costly paper work and procedures required by banks and governments. The steps involved in customs procedures and in obtaining import and export licenses, financing, passports and visas, permits to travel, inspection certificates and numerous other licenses and permits add to overhead expenses without adding any real value to the product being exported. They also create delays which make it difficult for the exporter to meet his delivery dates. Moreover, the greater the number of steps that are required and the number of offices that have to be reached, the more likely is the possibility of corruption.

The paperwork problem is not a simple one. It is precisely because exporting involves so many of the private and government sectors, that some controls are unavoidable. The very nature of large scale business and government creates bureaucracies which are not always as efficient as one might hope for. In the developing countries, where there is little experience and activities are constantly expanding, there is a tendency

for a great deal of unnecessary paper work. It is, indeed, rare to find efficient and speedy processing in any country, developed or developing.

Within the range of essential controls, the best method of reducing paper work is to create as few administrative steps as possible, and to simplify regulations to eliminate duplicate and unnecessary steps that require much bookkeeping and traveling from office to office.

The red tape problem is so serious that it is almost inevitably amongst the first items that are discussed and surveyed in any country that is interested in developing its exports. In Korea this was the first problem on which the Minister of Commerce and Industry requested assistance. In order to gain a perspective and to dramatize the magnitude of the problem, the writer undertook a case study. The introduction to this study, made on December 31, 1964 stated:

"Attached is a case study indicating procedural steps, documentation and processing time required by a single Korean exporter of cotton goods in order to export his product. The sequence starts with the first offer and goes through his final shipment and receipt of draft of foreign exchange from the bank. Of the 37 steps listed, 12 are involved in his own business negotiations and procedures. The other 25 steps require him to fill out 94 different types of forms with a total of 148 copies. Not including his own time required to gather the information necessary or to fill out the forms, it takes from 84 to 121 days to process the documents.

"It is hoped that this preliminary single analysis prepared illustratively, may be useful to the consideration of ways and means to enhance export

"trade. Obviously, such questions as the general validity of the processing sequence will need to be explored, taking into consideration that a large number of the steps will be necessary under any circumstances, and that time is inevitably required to translate export orders into export products actually exported and paid for. "

Chart I (page 101) illustrates the steps required.

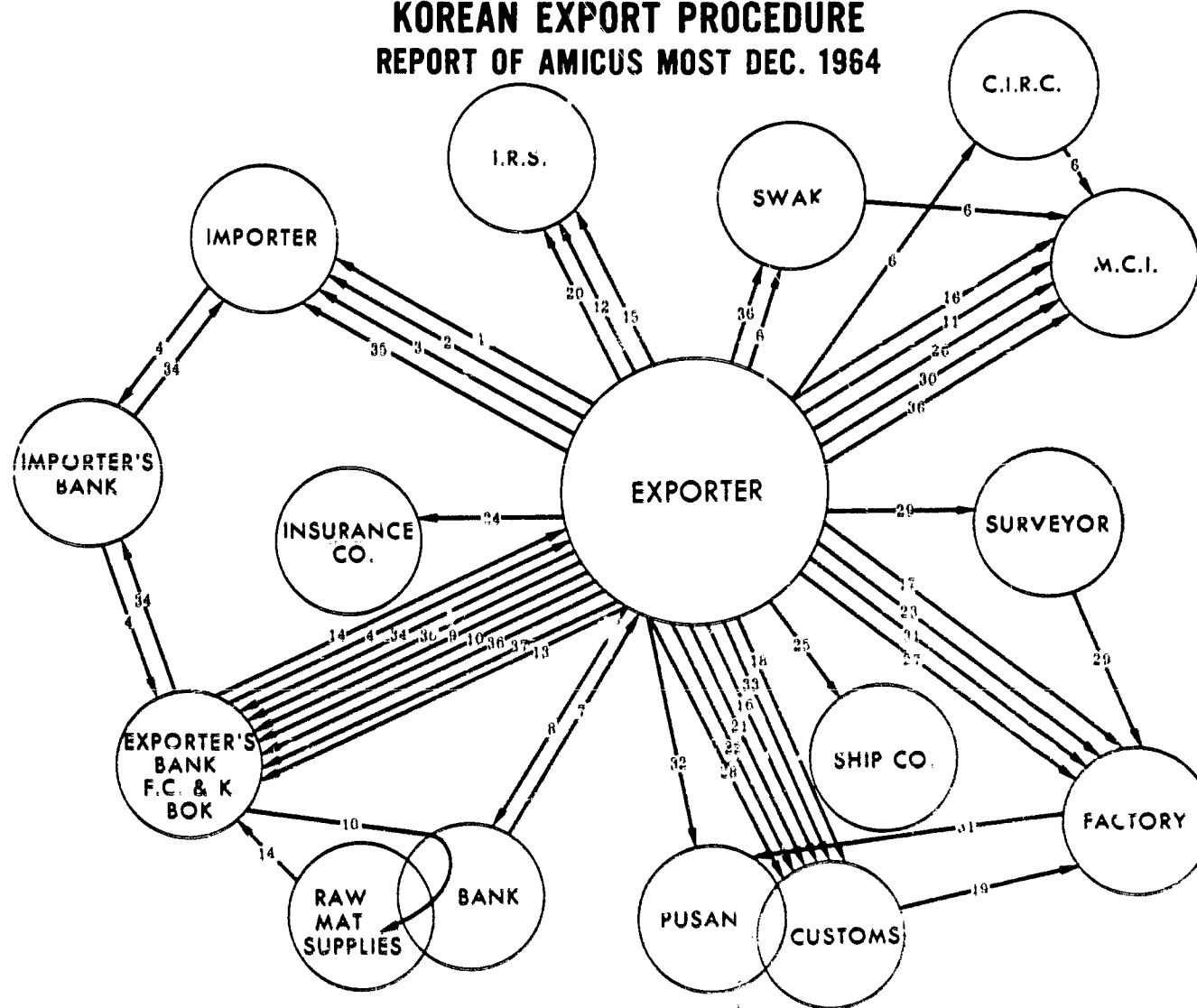
Subsequently, a second study was made which examined procedural steps, documentation and processing time required by a Korean businessman to travel abroad for business purposes. Nine steps were involved in this procedure during which the businessman filled out a minimum of 31 types of forms with a total of 48 copies. Excluding the businessman's personal time required to gather the necessary information to fill out the forms, to submit them, and perhaps to travel to Seoul, the processing time took approximately 40 to 55 days.

Chart II (page 102) and Table 9 (page 103) demonstrate this process.

A similar study was made of the steps necessary for importing goods.

The findings of these studies dramatized the situation so that it caught the attention of government officials, and shocked them into a realization that drastic actions were required to simplify and reduce the paper work, and to speed up its processing.

KOREAN EXPORT PROCEDURE **REPORT OF AMICUS MOST DEC. 1964**



PROCEDURES REQUIRED FOR BUSINESSMAN TO TRAVEL ABROAD

KOREA-AMICUS MOST REPORT
FEBRUARY 1965

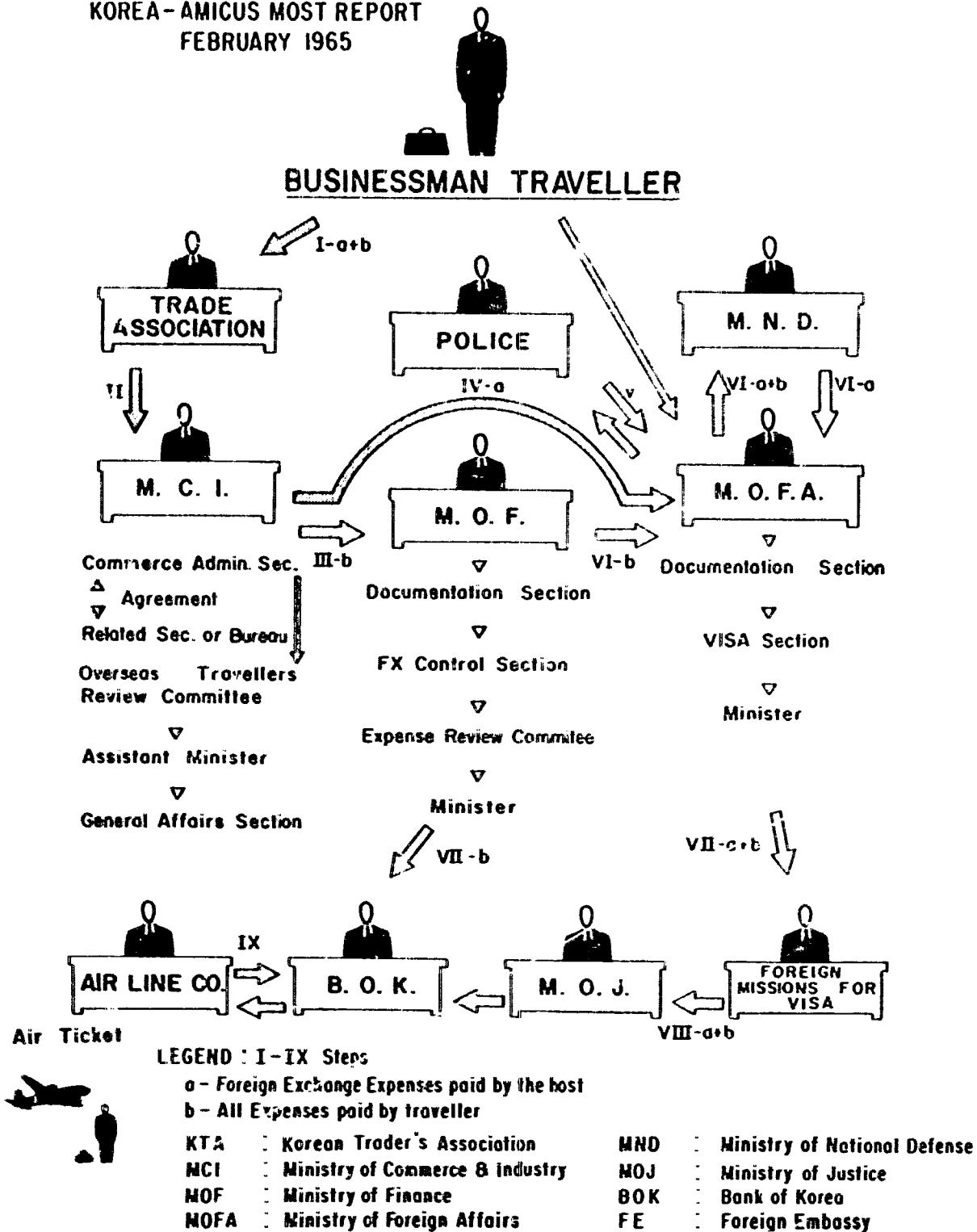


Table 9

Summary of Procedures for Travel Abroad other than to Japan

1. Foreign Exchange Expenses and Transportation Costs Paid by Host

<u>Steps</u>	<u>Concerned Agency</u>	<u>Types of forms Required</u>	<u>Total No. of Copies Required</u>	<u>Estimated Days Required</u>	
				<u>Minimum</u>	<u>Maximum</u>
1.	KTA	8	16	1	2
2.	MCI	3	3	5	10
3.	MOFA	11	13	3	3
4.	Police	3	9	25	30
5.	MND	1	2	4	8
6.	FE	1	1	1	1
7.	MOJ	1	1	1/2	1/2
8.	BOK	3	3	1/2	1/2
	Total	31	48	40	55

2. All Expenses Paid by Traveller

1.	KTA	7	14	1	2
2.	MCI	3	3	5	10
3.	MOF	3	3	6	12
4.	MOFA	10	10	3	3
5.	Police	3	9	25	30
6.	MND	1	2	4	8
7.	FE	1	1	1	1
8.	MOJ	1	1	1/2	1/2
9.	BOK	3	3	1/2	1/2
	Total	32	46	46	67

In addition to these three particular problems described, there were the dozens of other problems involving all types of activities connected with exporting. The Joint Export Development Committee (EPSC) set up a special working task force to deal with procedural problems. This task force included representatives of each of the various organizations involved in the paper work procedures. For each area, a special ad hoc committee was established to study each individual step carefully to see if a specific document could be eliminated or abbreviated. While these committees did reduce the work considerably, they were not as effective as desired. It was difficult for any specific agency to agree that its particular document could be eliminated. Also, each representative had to obtain the approval of his organization before he would agree to eliminate a document. Nevertheless, progress was made. The Minister of Commerce and Industry took a personal interest in the elimination of paper work, and used the prestige of his office to assist. Pressures from the private sector also helped to reduce processing steps.

As a matter of general principle, the writer believed that activities should be carried on by the Koreans themselves, and that outside help be used as little as possible. Nevertheless, he became firmly convinced that the only completely effective way that procedures could be reduced to a minimum was to call in a non-Korean, outside expert who would be completely objective, and who could do more, if given the proper backup, than had been done by the ad hoc committee. This recommendation was accepted in principle, but was never carried out.

It might be well to study steps taken in some other countries. While the writer has not himself witnessed the process, he has been given to understand that Hong Kong has developed an extremely expeditious system for export-related paperwork. According to these

reports, an exporter goes to a single center where he fills out one set of documents which are then put through the various required agencies by the center itself.

B. Passports and Visas

The processes of obtaining passports for Koreans to travel abroad, and visas for visiting businessmen are complicated and still need simplifying. Difficulties and time losses in obtaining a visa may not actually inhibit businessmen coming to a country, but they do create annoyances and bad feelings even before entry. For tourism, difficult processing actually prevents tourists from traveling in the offending country.

Although the writer is aware of the security problems involved, it is his opinion that these difficult procedures do very little to prevent undesirables from entering a country. He is very much aware of the often expressed annoyance of businessmen wishing to make quick and frequent trips for the purpose of exploring and buying in another country.

Fortunately, many countries today have eliminated visas, or have made it possible to obtain one in short order during a single visit to a consulate office.

C. Samples

Difficulties were encountered with customs regulations concerning both the importation and exportation of samples.

Some buyers carry many samples of articles they wish to purchase. The writer has seen a buyer come in with four or five trunks full of samples which must be cleared through customs. Occasionally the buyers wish

to leave the samples with the manufacturers for study and duplication. It is understandable that drafters of customs regulations fear that such articles are not actually samples, but imports for sale in the open markets. It is also understandable that the regulations set requirements for bonding them and placing them in temporary storage, or other requirements which also cause annoying delays. Even at the expense of possible errors, it was suggested that the customs officials be instructed to lean over backwards to eliminate such delays and annoyances. The potential loss in taxes was small at best in comparison to the gains in good will obtained by this leniency.

Sending samples out of the country involves customs problems where there is an export tax on the type of product being shipped. In order to sell their products exporters must display samples in centers throughout the world. They must send them to potential customers, and to fairs, trade shows, etc. which require them in quantities. For style items, importers often need large numbers of samples to distribute to their outlets. In one case, a sweater importer in New York stated that he required 50 sets of samples for each new style each season. Since he was selling approximately ten styles of sweaters this meant 500 units twice annually. Because some Korean Government officials had had little experience with American methods of selling, they were suspicious of this demand for so many sample items. Fortunately, the representative of KOTRA in New York was able to investigate and certify to the validity of the request.

As with imports of samples, the recommendation was made, and to a large extent implemented, that procedures and attitudes be lenient.

D. Exporter-Importer Relations

Improving relations between exporters and importers was essential in the development of trade. Misunderstandings appear in developed as well as underdeveloped countries. The methods of operation among businessmen in any country, and resulting frictions or goodwill, evolve over many years of close contact within the framework of a single culture and language. Relationships on an international basis, with continuous exchanges at long distances, are more difficult.

Western businessmen coming abroad as buyers, are constantly advised to learn local customs. However, developing countries attempting to sell their new products are dealing with a "buyer's" market. Realistically, the seller must therefore adapt himself to the methods of his customer. A misunderstanding which causes a customer to discontinue his business affects not only the individual seller but can set back the whole trade of the country. The customer will express his opinions to other businessmen about responsiveness and attention to his requests and instructions. Export promotion which concentrates efforts on establishing initial contacts and obtaining first orders, but does not assure necessary actions for repeat orders will not have much continuing impact on export earnings.

1. Cultural Patterns

In many instances Korean businessmen found themselves involved in serious misunderstandings regarding the requirements being placed upon them by foreign importers. Old Korean cultural patterns and many previous years of isolation from the outside world contributed to mutual lack of comprehension of business patterns by both foreigners and Koreans. For example,

one of the reasons for unfulfilled promises is the traditional Korean courtesy of responding affirmatively to the request of a visitor. A contract often has a different meaning to a Korean than it does to a Westerner. The Westerner interprets the words literally. The Easterner may interpret the provisions in the context of the situation when they were signed, so that changes which could not be considered acts of God or force majeure would still be acceptable reasons for non-performance. Time schedules have a different importance in different cultures. When Korean suppliers were late in delivery, they would give evasive excuses.

Problems also arise because of language differences and because of inexperience. Exporters may fail to meet specifications because their production controls are inadequate or because they do not understand the reasons for uniformity. Then instead of offering to make adjustments, they start the age-old bargaining device of using hyperbole. A major difficulty which KOTRA and Korean Embassy representatives abroad complained about was that letters were not answered promptly or responsively. This was true both of inquiries to government agencies and to private exporters.

It must also be stated that there were instances where the buyer was unscrupulous, or attempted to take advantage of the lack of experience of the Koreans to make unjustified findings or claims. Koreans often complained that after expensive entertainment of buyers they still received no orders. In their culture, accepting favors or entertainment creates an obligation for reciprocity -- in business as well as in personal relationships.

2. Education on Business Relations

Many steps were taken to improve the understanding by Korean exporters of the problems of

relationships with importers. Both the Korean Government and the Korean business organizations undertook a program of education and propaganda on ways of conducting business with the West. This campaign was helped by reports from KOTRA and by suggestions of A. I. D. advisers.

Both the Korean Traders Association and the Korean Chamber of Commerce established committees on business ethics. These committees drew up codes of behavior and undertook supervision of their own membership's compliance with these codes. While not always effective, the very existence of the codes helped educate the business community.

Without question, the overwhelming majority of Korean businessmen conducted their affairs in an honorable manner. This was a demand of their own cultural traditions. What appeared to Western businessmen to be irregular conduct was usually due to misunderstanding, lack of experience, or conditions beyond the control of the specific Korean businessman involved.

Some of the most effective education for the Korean businessman came as a result of his contact with foreign businessmen. Koreans quickly learned to adapt their methods to those of their customers and to understand the importance of meeting terms of agreements. Complaints from customers and occasional loss of repeat orders were the best form of education.

3. Regulations and Sanctions

As part of the stabilization program, and in order to prevent over-expansion of credit, a Korean Government regulation prohibited an exporter from accepting an order which was not accompanied by a firm

letter of credit. The exporters received payment in full as they shipped goods. This made it difficult for overseas customers to get satisfaction even on legitimate complaints. In the event of a complaint, the only recourse of the buyer was to rely on the goodwill of his supplier, or in extreme cases, to sue him in the Korean courts.

In an attempt to prevent delivery of poor quality goods, the Korean Government issued another regulation that penalized the seller whenever unsatisfactory goods were not accepted by the buyer and therefore returned to Korea. While this regulation was helpful, it was not very effective in preventing shipment of products that did not meet contract requirements. However, it did motivate exporters to agree to penalty rebates or to sell at bargain prices in the recipient country.

Another sanction was to remove from the accredited list of traders, exporters who were persistently guilty of failing to meet contract requirements. This list compiled by the Korean Traders Association (KOTRA) and the government, established eligibility to export. This sanction was seldom invoked.

4. Mediation and Arbitration

When disputes became insolvable through direct negotiation, KOTRA and Korean Embassy officials would often intercede and successfully mediate.

The EPSC recommended the establishment of an arbitration procedure for settling complaints without recourse to the courts. In the United States and other countries, such voluntary arbitration is often provided for in sale contracts which specify who the arbitrator shall be. American courts have ruled that, where such

arbitration is agreed to in advance, its decision shall be legally binding.

As a result of the EPSC recommendation, a commercial arbitration law was enacted by the Korean National Assembly. The Ministry of Commerce and Industry designated the Chamber of Commerce to undertake the work, and the Chamber established a separate arbitration organization. EPSC had also recommended that a technical consultant be brought in to assist in establishing the necessary procedures. The American Arbitration Association offered an expert, but time and expense prevented using him and the Chamber of Commerce established the system with its own resources.

5. Other Possible Actions

Two suggestions for steps to improve exporter-importer relations were not implemented. One proposal was for a university group to make a study of the way in which the traditions, mores, codes and history of the Koreans affect business dealings. As mentioned earlier, the writer was convinced that cultural factors were very important, however, he could not find that any qualified analyst had ever examined the problem. He felt that a better understanding of these factors would give clues to better means of educating Korean businessmen, and would also facilitate explanations to foreign buyers who became exasperated by situations they did not understand.

The second proposal was to establish in Korea, an Expediting Center which would receive complaints from Korean trade centers and embassies abroad, and also directly from customers. It would try to speed up the handling of legitimate problems through its direct access to the government agency, bank or businessman involved in the complaint, and by getting the facts promptly. The

Expediting Center would not settle claims or substitute for any existing private or governmental authority, but would attempt to eliminate bottlenecks and red tape.

The concept of a single center for all relationships with a governmental unit is not original. It has been put into practice in other areas of the world, Hong Kong being one. While the situation in Korea has greatly improved, it is still the writer's opinion that such a center could be an important step towards the improvement of trade relations.

In addition to the two proposals described above, the idea of a study of customer turnover rate occurred to the writer while preparing this report. One of the handicaps in arousing concern over the need to improve business relations was that exports were growing so rapidly that neither government officials nor businessmen could always be convinced to take seriously the complaints from KOTRA and the buyers. If some way could have been found to show the percentage of orders which were cancelled, or the number of single orders which never brought a follow-on, the educational process might have been more effective.

6. Reputation Study

In connection with the development of a foreign investment program, A. I. D. financed a study entitled "Korea's Reputation Study", which was made in the United States by a private consultant firm. While not directed exclusively towards trade, this study obtained opinions from American businessmen as to the reputation of Korean business and trade methods. The report reinforced opinions often expressed by overseas representatives of KOTRA, and U. S. and foreign businessmen. While it repeated many of the complaints mentioned above, it also stressed that the reputation of Korean businessmen had improved.

The consultants did a competent job, but the facts presented were generally known to both Korean and American officials located in Korea. It is the opinion of this writer that this type of study can more easily be undertaken through a canvass of foreign businessmen and visitors by those persons already working with them.

E. Shipping Information and Rates

Transporting raw material and supplies into Korea and shipping Korean products out presented special problems. With the exception of transportation to and from Japan, all goods have to travel long distances by sea to keep Korea's trade moving. Korea had only two major ports. Inchon on the west coast is close to the major manufacturing center of Seoul, but has a 30 foot rise and fall of tides so that no ships could load or unload dockside. Pusan on the southeast coast of Korea had no such problem, but its docking facilities were unable to accommodate ships over 10,000 tons.

Few steamers made scheduled and regular trips. Korean flag ships were limited in size and number, and could not cope with the growing export requirements. Korea had to rely for a good deal of shipping on tramp steamers with lengthy delivery time and frequent and irregular stops en route. This made it difficult to get customers as firm delivery dates could not be given. As an inheritance from the war, stevedore charges were higher at Korean ports than at nearby ports in Japan.

To cope with this situation, the Korean Government organized a program to finance the development of shipyards and shipbuilding. It also set out to encourage foreign shipping lines to make more frequent visits to Korean ports.

The scheduling of shipments to provide larger freight loads for each ship was one of the methods utilized to

encourage the shipping lines. Much manufacturing for export was done by small companies. To obtain sufficiently large freight loads for each ship it was, therefore, necessary to coordinate the activities of many companies.

The companies required easily available shipping information so they could plan shipments. For this purpose, the Korean Government established a Shipping Information Center financed jointly by the government and the shipping companies. It was located at the headquarters of the Korean Trade Promotion Center in Seoul where freight rates, schedules, and other information to assist shippers were easily accessible.

Korea was not a member of the Pacific Shipping Conference which established freight rates for regularly scheduled shipping. While there might have been many advantages in joining the Conference, in some respects the non-membership was advantageous. For example, Korea produces and ships large quantities of plywood to the United States (\$32 million in 1967), for which the cost of shipping is an important factor in meeting competition. The volume is sufficiently large to permit a 10,000 ton ship to be fully loaded with this one item. In 1967, a shipping company owned by Koreans was able to ship plywood for about two-thirds of the regular Conference rates. On the return trips these ships could bring back raw materials and supplies from the United States.

The United States Government has no control over the established Conference rates. Through the initiative of the Senior Export Advisor, a number of conferences were held by representatives in Korea of the international shipping companies. They unanimously decided to petition their respective companies to exercise their best efforts towards equalizing freight rates and eliminating discrimination against Korea. As the story of Korean export development spread throughout the world, shipping compan-

ies took more and more interest in the possibilities of expanding their businesses there.

In the long run, the new ships being built and chartered by Korean companies, and the increase in volume of goods being shipped will serve to reduce expenses of shipping from and to Korea.

F. Export Insurance

One of the risks that discourages exporting is the difficulty of obtaining legal redress in a foreign country. Any losses during transportation through fire, theft or marine accidents are easily insured by international insurance companies. But losses involved when customers legitimately or illegitimately fail to accept delivery or fail to make payments, and when other similar situations occur, can only be protected by a special export insurance system.

The risks for Korean shipments were minimum. This was because Korean Government regulations required a firm letter of credit to be given at the time an order was placed. Payments were, therefore, made upon shipment from a Korean port and delivery of a bill of lading to the Bank of Korea. This regulation was established as part of the Korean stabilization program and in order to prevent an over-expansion of foreign credit. This created little hardship for those traders doing business with the larger foreign companies. The large companies requested no credit arrangements and were perfectly willing to issue letters of credit at the time they placed their orders.

When dealing with smaller foreign companies and traders, and in some of the less developed countries, the ability to sell on credit terms undoubtedly helps increase the volume of business. Many traders throughout the world give preference to placing their orders in countries or with companies which can extend them credit. Selling

on an L/D (Letter of Delivery) or L/A (Letter of Acceptance) process also makes it possible for the purchaser to inspect his purchase at the point of delivery rather than at the point of shipment, and puts him in a position to reject unqualified goods. Selling on credit, however, is a mixed blessing. While it encourages quality shipments and more trade, it also opens the door to unscrupulous buyers who may reject goods for reasons other than bad quality.

Nevertheless, as Korean exports expanded and their foreign exchange holdings grew, it became increasingly evident that Korea would have to make it possible for her exporters to meet international competition by selling on credit terms. In order to do so, it was very important that an export insurance system be instituted. EPSC, therefore, recommended that a special study be made of such systems existing in other countries, that the necessary legislation be enacted, and that companies be organized to establish an export insurance system. KOTRA was assigned the job of making this study, and it is hoped that such a system will be established in the near future. In the meantime the impact of Korean regulations regarding letters of credit have been somewhat alleviated by permitting the importation of some materials before export orders are received. Thus, it is easier for Korean exporters to meet delivery dates and foreign importers do not have their funds tied up so long.

CHAPTER XI

MARKETING

Fortunately, Korea had a trading community so the export development program did not need to generate this activity. It did have to help Korean traders adapt to the demands of distributing hundreds of new products to thousands of new customers.

Koreans lacked knowledge of the steps necessary to put their goods on the international market. Conversely the outside commercial world had little knowledge of Korea and its possibilities. Even though the country was already manufacturing many acceptable items, these were little known or appreciated. Overseas activities and budgets of the Korean Trade Promotion Corporation were limited. Travel by private Korean businessmen has been hampered by many restrictions, and difficulties in obtaining foreign exchange. Few buyers were interested in coming to Korea. It became obvious that an extensive program of overseas marketing activities would have to be developed.

While Korea already had many products that could be sold, she had many more that were close to meeting the requirements of the international buying community, but not quite up to par. With her low-cost labor, there was a danger that the anxiety to sell would draw many bargain hunters, i. e., people interested in one-shot deals, requiring only the lowest quality goods. The first period of Japan's export development had been precisely along these lines, and it took Japan many years to overcome the reputation it acquired for producing low-priced low-quality goods. As a matter of policy it was determined that efforts would be made to prevent Korea from going through such a period.

A. Bringing in Major Buyers

One approach to marketing was to attract buyers from the large chains who were interested in purchasing articles in the middle-price levels, and who would take a developmental approach to purchasing in Korea. It was hoped that large companies would be willing to assist with technical help and guidance, and would be prepared to put their time, effort and possibly money into initial, smallscale purchases to help create permanent sources of supply.

It was suggested that an attempt be made to induce the top executives of the leading U. S. retail store buying chains to come to Korea. To do this it was necessary to mobilize the leading business organizations, KOTRA, and the American Chamber of Commerce in Korea. For educational and psychological reasons it was important that this project be financed by the Koreans themselves. Because of their inexperience, however, the Korean business organizations were reluctant to invest funds in a project in which they could see no immediate results. The sum involved was not large, but it took considerable persuasion to convince them to agree to the project. Finally, a committee was established and the funds pledged.

Although there had been considerable correspondence, the American buying chains evinced no great enthusiasm for participation in this project. It was, therefore, decided that Mr. Oh Pomsik, President of KOTRA, and the writer should go to the United States to visit heads of important buying chains and deliver personal invitations to come to Seoul as guests of the Koreans. The assistance of A. I. D. /W, the U. S. Department of Commerce, and Korean Consulates was invoked. Through the U. S. Government agencies, the door was opened to meet the top executives of the buying chains. Moreover, R. H. Macy & Company, which had previously opened an office

in Seoul, was very helpful through its personal solicitations of the many other chains.

Mr. Oh Pomsik and the writer also took advantage of their presence in the U. S. A. to meet with many leading banking institutions to discuss potential trade and investment in Korea. Conferences were arranged in Washington, New York, Chicago, Los Angeles, San Francisco and Seattle.

The trip proved highly successful. In October, 1965 the representatives of ten of the largest American buying chains arrived in Seoul. These chains included J. C. Penney, W. C. Grant, Sears Roebuck, Montgomery Ward, the May Company, Allied Stores, Macy's, Gimbel's, Amerex Corporation and Woolworth's. Several others, among which were included Associated Merchandizing Co., Marshall-Field, and Gottliebs, could not come at that time, but arrived later. The total retail business in the United States represented by these groups was in the neighborhood of \$15 billion annually. An extensive program of exhibits, factory visits and conferences were arranged by the Koreans under the leadership of KOTRA. Meetings were held with top level Korean and U. S. Government officials.

While it would be a gross exaggeration to claim this trip opened up Korea, it nevertheless paved the way for a great many of the buyers who subsequently went there. Some companies, finding a potential source of supply, carried out the developmental approach by sending full-time technicians to assist Korean factories in bringing the quality and design of their products up to an acceptable standard. Others assisted through their buying agents, and by sending in professional buyers in the various lines of interest. R. H. Macy's decided to include Korea and its products in its "Far East Festival" which took place in September, 1966 and which was a highly successful merchandising event.

Since this original mission came to Korea, many of the companies which were part of it have established permanent offices in Korea, or have made arrangements for Korean trading companies to represent them in making substantial purchases. In addition, the activities of KOTRA's overseas representatives, travels by the writer, and word-of-mouth throughout the world induced many more buyers to come to Korea. At the same time, many Koreans visited world centers since Korean companies had been given tax allowances for their overseas expenditures in sales promotion, and procedures for obtaining visas had been simplified.

B. Trade Missions

During their aforementioned trip, the President of KOTRA and the writer visited the Chicago and Seattle Chambers of Commerce, both of which were planning Far East trade missions. Plans for the Chicago group had already advanced too far to permit a change, but the Seattle group was persuaded to include Korea in its itinerary. Governor Evans of the State of Washington accompanied this tour which proved to be mutually successful to Korea and Washington.

The Koreans were themselves organizing trade missions to various parts of the world including Japan, Southeast Asia, Africa and Europe. The Korea Businessmen's Association sent a large trade mission to the United States following the trip by the President of KOTRA. This mission met business leaders and merchants and bankers, visited stores and factories, and in general made excellent contacts. Arrangements for this trip had been made with the assistance of the A. I. D. Mission to Korea, A. I. D. /Washington, and the U. S. Department of Commerce.

These visits by Korean businessmen to potential markets served not only the purposes of creating contacts,

and promoting and selling, but also afforded the opportunity to observe and study products, methods of manufacturing and methods of conducting business. Many groups travelled especially for this purpose. Some of these missions were composed of a mixed group of top-level company officials representing diversified and varied industries; others were composed of representatives of a single industry or of people interested in a single phase of trade. The latter type of trade mission was more effective.

For a mission to be thoroughly effective required a great deal of preliminary work. Contacts had to be made at each port of call, itineraries arranged, and interpreters supplied, in addition to the usual arrangements for travel, hotels, etc. KOTRA and Korean embassy officials undertook this work. United States A. I. D. Missions assisted in various countries. In the United States, A. I. D. /W and the Department of Commerce were of great help.

Unfortunately, the trade missions did not always give the representatives in the places they were to visit sufficient time to prepare for them, and did not spell out details of their own specific interests. Also, Korean overseas officials over-scheduled ceremonial visits and conferences with Korean embassy officials and host-government agencies, sometimes at the expense of time that might have been more usefully devoted to contacts with host country businessmen. These overseas officials apparently thought that important Korean businessmen might feel slighted if they were not received and entertained in this manner. In many instances visits to specific cities were much too short, too many countries and cities having been included in one trip. In his final report the writer stated as follows:

"Korean companies should send a great many representatives overseas and should participate

"in organized trade missions. Such missions should be well planned and if sufficiently large, should send an advance man to plan and prepare for the mission. The mission should be composed of persons thoroughly familiar with the products to be sold, who carry with them samples and literature, and are prepared to quote prices on the spot. These trade missions should reduce their ceremonial visits to an absolute minimum, devote their time to visiting potential customers and developing business contacts, and spend sufficient time for useful activity at each stop."

As many trade missions as possible from other countries were encouraged to visit Korea, often at the invitation of various Korean business groups and KOTRA. In one of the reports of the writer's world trip he stated:

'Field offices should be in close contact with local Chambers of Commerce, state government trade agencies, etc. to learn of potential trade missions to Asia when they are in the early stages of planning. With the present widespread interest in Korea, it is sometimes possible to get Korea on the itineraries of such visits. However, unless this is done well in advance of final formal announcements, it is almost impossible to get the leaders to revise their plans.

"Conversely, Korean field offices should be notified well in advance of proposed visits of Korean trade missions and other business groups, so that they can make the local plans accordingly. There should be some system of coordinating the various visiting missions, as it is often awkward for local staff and consular officials to repeat contacts with government

"officials, banking officials and business organizations when visits follow each other at close intervals. We cannot 'wear out our welcome. '"

C. Korea Trade Promotion Corporation (KOTRA)

The major responsibility for the development of overseas markets was assigned to the Korea Trade Promotion Corporation (KOTRA), a public corporation founded in 1962 and wholly subsidized by the Korean Government.

KOTRA helps manufacturers and exporters to locate overseas markets; provides marketing education; and advises on the requirements of these markets through its market research activities, local publications and counseling offices. KOTRA is also used by manufacturers as a check-point to determine whether the trading companies are providing adequate service and overseas market coverage.

KOTRA is the agency most directly responsible for distributing news of Korean products to foreign buyers through its international publications and overseas trade centers. It comes under the jurisdiction of the Ministry of Commerce and Industry and is, in fact, the overseas arm of that Ministry.

KOTRA's activities in carrying out its export expansion objectives are briefly as follows:

- Conducts market studies;
- Conducts export industry research;
- Promotes Korean products and firms to foreign buyers;
- Maintains trade centers abroad;
- Participates in world fairs and trade fairs;

- Operates the "National Exhibition Center" located in Seoul and Pusan;
- Publishes trade periodicals and pamphlets;
- Produces trade films;
- Provides instructions and guidance in packaging and labeling;
- Advises Korean Government on matters affecting exports;
- Operates an Export Training School;
- Provides foreign firms with information on Korean manufacturers;
- Produces magazines, brochures and monographs to convey information on the quality of Korean products.

1. Organization

The KOTRA organization consists of a main office in Seoul with overseas trade centers in New York, Chicago, Los Angeles, New Orleans, Montreal, Hamburg, Milan, Tokyo, Osaka, Hong Kong, Bangkok, Saigon, Singapore, and Djakarta. It maintains overseas research offices in Panama City, Amsterdam, London, Tehran, Lagos, and Johannesburg. It also maintains part-time market research correspondents in Peru, Brazil, Colombia, Belgium, Sweden, France, Australia, Taiwan and the Philippines. See Chart III (pages 126 -127). Its total staff consists of about 250 people of which approximately 150 are stationed overseas. Its 1967 budget was approximately \$1, 500, 000. This budget is provided by the Korean Government, but administered as a separate agency under the general direction of the Ministry of Commerce and Industry.

2. Home Office

The home office in Seoul is housed in a building in one of the main squares of the city. The shipping information center mentioned previously is located on

the street-level floor. An exhibition room on this same floor displays Korean manufactured products available for export. The displays are directed towards the visiting buyer or businessman. While the attendance of buyers from abroad is not large, they see a cross-sectional display of Korean products. Other organizations such as Korean Traders Association and the Korean Chamber of Commerce maintain their own displays. The Chamber of Commerce also has displays in each of its centers in 18 cities in Korea. Similar but smaller displays are maintained at each of the KOTRA overseas trade centers and at the KOTRA center in Pusan, as well as in the lobby of the A. I. D. headquarters in Seoul.

KOTRA publishes an attractive monthly trade magazine, Korea Trade, which is distributed world-wide. A promotional page from the April 1967 issue is shown on page 127. It also prints a buyers' guide which lists every company in Korea together with the products it is prepared to export. Similar guides are published by the Korean Chamber of Commerce, and Korean Traders Association, the Korean Businessmen's Association and the American Chamber of Commerce. KOTRA publishes a weekly bulletin which lists sales opportunities throughout the world. The Korean Traders Association also publishes such a bulletin and has a daily edition teletyped to its Tokyo office.

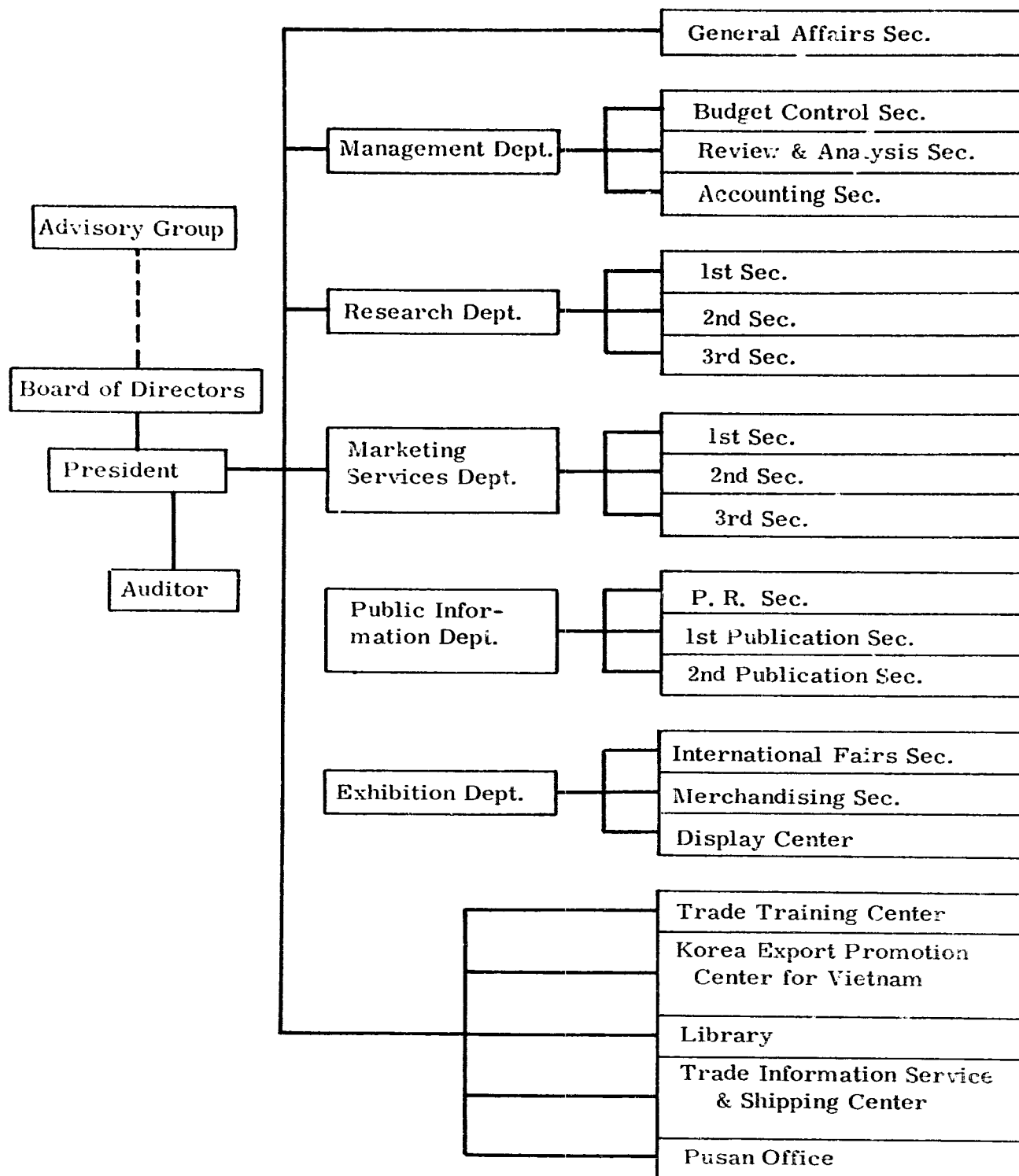
3. Overseas Offices

Staffing of the overseas offices varies with their importance. New York and Tokyo are the largest, maintaining a Korean and local staff of eight to ten people each. The balance of the offices each maintain staff of three to five people.

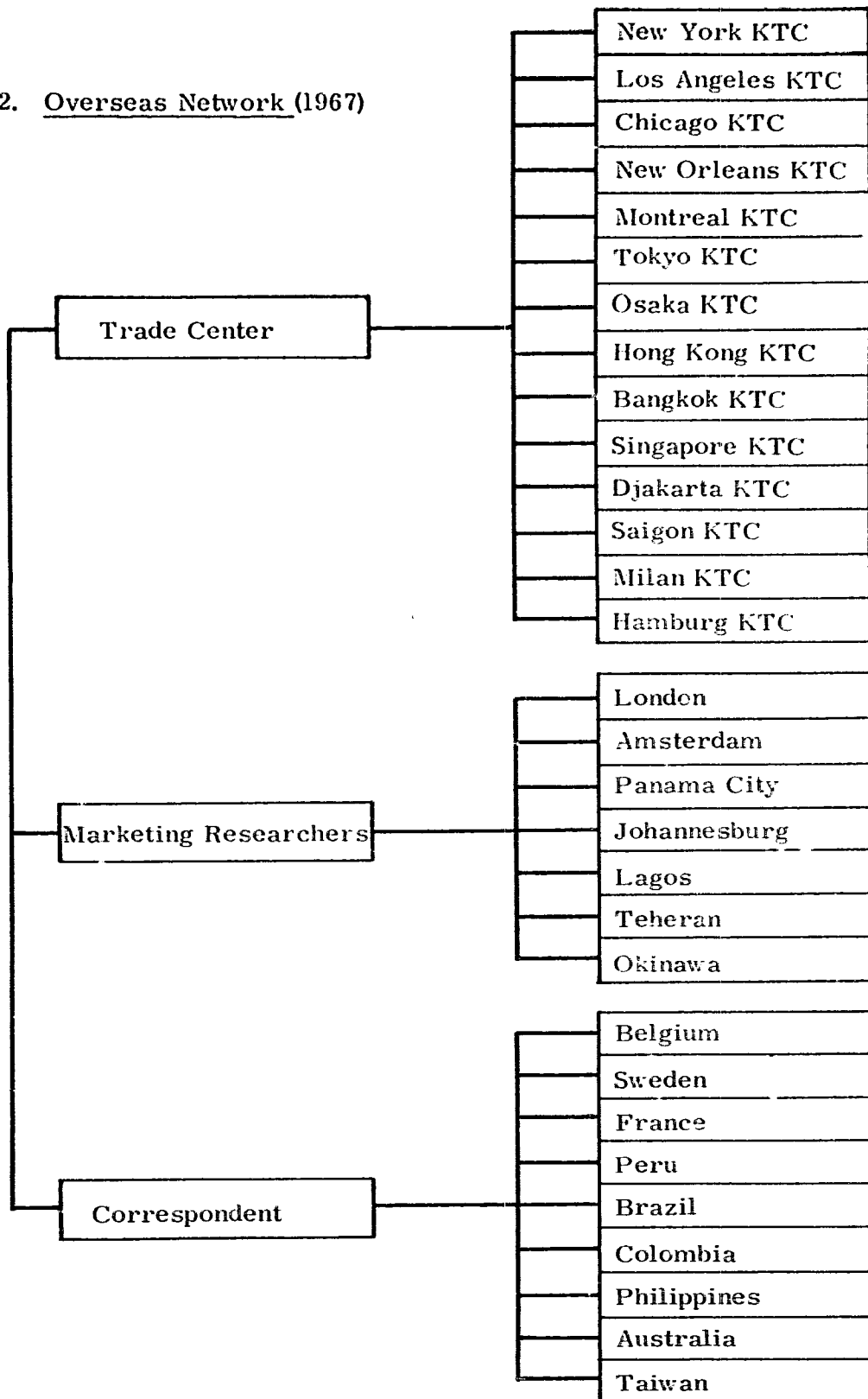
These overseas offices have two basic jobs. One is to undertake market research for Korean manufacturers both on specific products of a particular company,

KOTRA ORGANIZATION CHART

1. Home Office

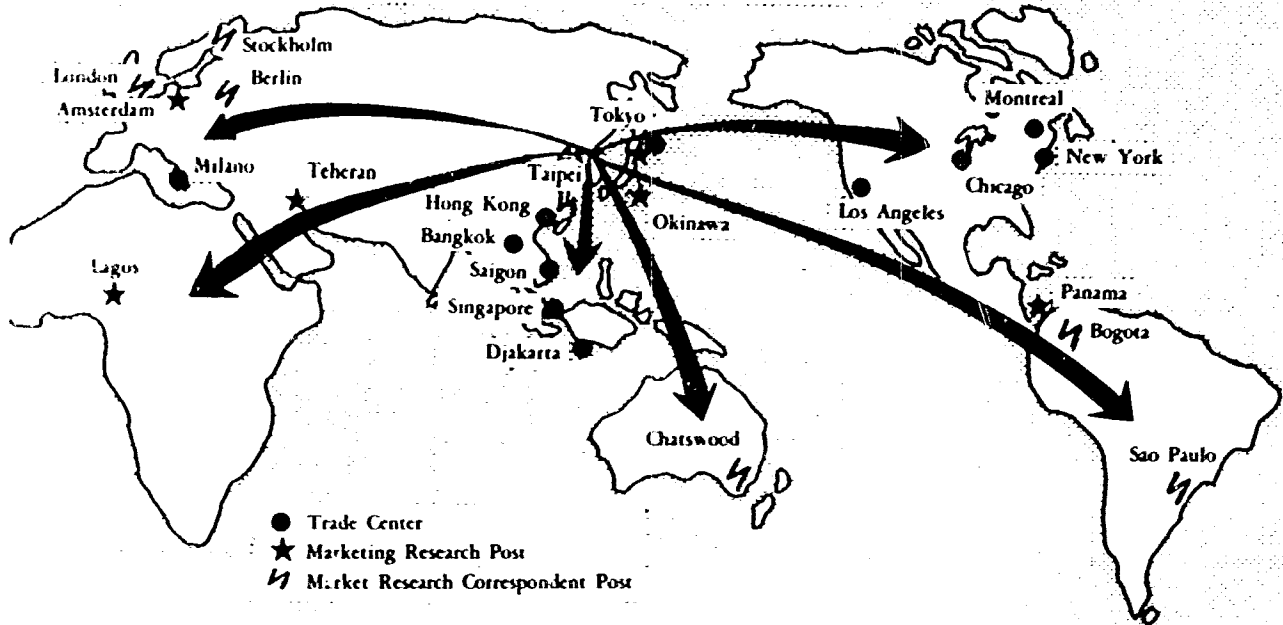


2. Overseas Network (1967)



DOING BUSINESS WITH KOREA ? KOTRA can be of Service !

KOTRA's Overseas Network



Send your Inquiry now !

Korea's Export—

More and more importers are discovering that Korea is the latest Asian country to enter the international export market. Technical improvements plus modern manufacturing facilities have placed Korea in a position where it can compete with Asian trade countries as a supplier of low cost, high quality products.

*See full addresses of KOTRA's overseas network
on Page 65.*

What is KOTRA?

The Korea Trade Promotion Corporation (KOTRA) was established by the Government in order to promote Korea's export trade and to offer dependable free information concerning Korea's exports to all foreign and domestic traders.

KOTRA directly offers accurate information concerning manufacturers of quality products, prices, hotel accommodations, and all other points of importance to businessmen. All inquiries are promptly referred to competent manufacturers concerned. Whatever your business, it pays you to investigate Korea as a source of supply for your requirements.



KOREA TRADE PROMOTION CORPORATION

P.O.Box: 1621 International, Seoul, Korea

Phone: 23-4181-4189

Cable: "KOTRA"

Telex: No. 2259

and general categories of commodities. They also supply the home office with statistical data which is collated and published in the weekly bulletin for the use of the Korean exporting community.

The other major task is to locate specific customers for specific products and companies -- to act as a go-between. Overseas offices do not usually participate in actual sales negotiations which are properly left to the specific company involved. However, in some countries where new products are being introduced, KOTRA will occasionally become involved in actual sales work in order to open a new market. But even in those instances the KOTRA personnel do not themselves sign or accept purchase orders, but refer them to the company.

KOTRA personnel also engage in general promotion work and publicity, and assist visiting Korean businessmen. They give information to foreign businessmen wishing to visit Korea for the purpose of investigating the possibilities of trade, and they participate in trade fairs when this is deemed advisable. Of great importance are the recommendations that KOTRA field offices make to the home office on such subjects concerning trade development as buyers' complaints, product quality, and rules and regulations which may inhibit or promote trade.

By agreement with the Ministry of Foreign Affairs, KOTRA took on the trade promotion duties that normally fall upon the Commercial Attachés at embassies or consulates. It does not become involved in the diplomatic activities in this area. In such countries and places where there are no KOTRA offices, the Commercial Attachés still do the work of trade promotion. Unfortunately, limited staffs of the embassies, and the many duties of the Commercial Attachés make it difficult for them to do as much work as is required in this field.

4. Areas for Overseas Activities

The nature of the consumer "over-the-counter" goods in which Korea was concentrating dictated that efforts should be directed towards the affluent countries with high personal incomes. First on this list are the United States, Canada and Japan which together consumed over 75% of Korean exports in 1967. Next on the list are the Northern European countries which took 11% in 1967.

In the earlier days of export development, Korea directed much of her effort towards Japan and Southeast Asia. Now that the developing nations of this area are building their own new consumer goods industries, the possibilities of Korea greatly expanding trade to these markets is limited by the competition.

5. United States Activities

Given the circumstances above, the United States market increasingly became the most important for active development. In 1963 the United States market absorbed approximately \$24 million of a total export business of \$86 million. By 1967 this figure had reached approximately \$137 million out of a total of \$320 million. Korea was producing a very wide variety of products attractive to the high-income North American market. KOTRA maintained four major centers in the United States. Since New York is the chief buying center in the United States, the biggest office was located there. Besides the smaller offices in Chicago, Los Angeles and New Orleans, representatives, were also located in Houston and San Francisco, as well as in Montreal.

6. Japan and Hong Kong Offices

The two centers in Japan, located in Tokyo and Osaka, plus the one in Hong Kong had a double job to do. One was to promote exports to these two countries, and

the other was to deal with regional representatives of foreign firms.

a. Exports to Japan

Second only to the United States is the trade with Japan, which absorbed approximately 26% of the total exports of Korea in 1967 and supplied 45% of Korea's total imports in that year. The potential of the Japanese market for increased Korean imports has not been exhausted. As Japanese wage scales increase, it becomes advantageous for Japan to import certain partially completed and completed manufactured goods which can be produced less expensively in Korea. Many Japanese trading companies have world-wide sales outlets, through which Korean goods can be re-exported.

Because of its proximity, and the fact that many Koreans have a knowledge of Japanese, it is easier to carry on Korean sales efforts there than in any other country in the world. The large colony of persons of Korean origin who live in Japan form a sympathetic nucleus which can help develop trade with Korea. Since the Normalization Agreement (1965), relationships between the two countries have improved and should continue to do so. An increase in tourism and travel between the two countries is assisting in the process of building business relations.

b. Working with Overseas Representatives

Japan is also a center for representatives and traders from the great buying organizations of the world and especially of the United States and Europe. Buying in the entire Orient by these

traders is in most instances directed from Japan and/or Hong Kong. While the final decisions to purchase in Korea are made by the home offices, they are very much influenced by the representatives in Japan. In addition, these representatives usually carry on the day-to-day work involved in the processes of purchasing.

During the writer's visit to Japan, he accompanied the Director of KOTRA/Japan to meet representatives of the following companies:

- Amerex International Corporation
- J. C. Penney Purchasing Corporation
- F. W. Woolworth Company
- Dodwell & Company (represents mostly European stores)
- Associated Merchandising Corporation (represents U. S. chain stores)
- Montgomery-Ward Company
- Mitasco Company (U. S. chain store)
- Sears Roebuck Company
- National Silver Company (U. S. trader in flat table cutlery.)

Almost all of these companies have begun purchasing in Korea. Some have opened or plan to open their own Korean offices (sometimes as a branch of their Japanese office) and some have arranged to be represented by local Korean companies.

The Japan trip also afforded occasion to meet the Tokyo and Hong Kong representatives of Jardine, Matheson & Company, Ltd. Their main office is in Hong Kong where they are the largest traders. After the Tokyo meeting, the director

went to Seoul to open an office there.

In Osaka, a meeting was arranged with the President of J. Kimatrai and Company, Ltd. This is also a large world-wide trading company. The firm is opening an office in Seoul.

These are examples of many other international Asiatic traders and commission brokers who are now becoming interested in Korea. They are not competitors of existing Korean traders. They have established outlets and an international sales force that can augment Korean trade. Existing Korean traders rarely have entree to the customers of these companies.

The "International Group of Department Stores" includes some of the largest stores in Europe. Its members exchange information, undertake purchasing for each other, and assist visiting buyers from other members of the group. The Tokyo member of this group is the Takashimaya Department Store.

A constant stream of buyers comes to Japan from American and European companies which have no direct representation in Japan. These buyers are contacted through the KOTRA Tokyo office which now sends a form letter to every visiting buyer arriving in Tokyo.

7. European Activities

More recently Korea has begun to develop the European market. New centers were opened in Hamburg and activities were expanded in England and the Scandinavian countries. While problems of distance, penetrat-

ing the Common Market, and competition with other developing countries were more severe in Europe than in the United States, nevertheless, the European market presented the next large potential area for Korean exports.

The International Trade Center of GATT offered to make a European market survey to furnish the basis for promotion work. KOTRA assigned a full-time representative to Geneva to work with UNCTAD and GATT. In addition, KOTRA has conferred with executives of Harrod's and Selfridge's department stores in England, and with chain store managers and traders in Stockholm, Hamburg, Amsterdam and Milan. Most of these are represented in Hong Kong and/or Tokyo by local agents, and are guided by the recommendations of these representatives. Many of them send their buyers who work with trading organizations in these two cities, and KOTRA has urged that the buyers visit Korea.

8. Other Centers

While the main efforts were directed towards the high-income countries, there was still much work to be done in other areas of the world. The first offices that had been opened by KOTRA included Bangkok, Singapore, and Djakarta. These centers were maintained and in some instances were even expanded. As the staff gained experience, their work improved and their activities played a very important role in the development of Korean exports.

9. Research and Sales Promotion

Field research was essential to the development of exports. Research activities in the field served a double purpose of supplying information to the Korean businessmen and government officials, and giving field

personnel the opportunity to maintain and expand their contacts with the buying community in the process of obtaining information. The home office prepared various forms and made requests for information to the field offices.

However, sales promotion work was more important than research. The home office sometimes made demands for research information that occupied the time of the field offices at the expense of promotion work. This was a perpetual problem. Budget limitations only permitted small staffs. It is extremely important that the local field offices be given discretion as to what priorities are given to the various activities. The size of staff, their skills, and the areas in which they are located must be taken into consideration. In countries where there is a single staff member and little existing trade, it might be even wise to permit the representative to devote almost all his time to creating new business.

An interesting example occurred in Tehran where Korea had no diplomatic or consular offices. A single KOTRA representative was sent there in 1965 and was probably the only Korean living in that city. Because of budget limitations and restrictive local regulations, his only office was in his home where he had no telephone or secretarial assistance. He maintained a sort of outdoor, roving office in the wholesale trading area of the bazaar, making himself known to the traders with offices in this area. He devoted almost his entire time to this type of promotion work and was able, in the course of one year, to create \$1 million worth of annual business for Korean producers. Subsequently, an Ambassador was appointed to Iran and KOTRA opened a full-time office.

10. Financing Trade Promotion Activities

Financing overseas sales promotion presented

difficulties. As a government agency, KOTRA had no income of its own and Korean businessmen and government officials, with little understanding of the vast areas to be reached and the great expense involved in overseas promotion, were reluctant to allocate funds for this purpose. Moreover, pay scales for staff in overseas countries were much higher than for top-level personnel in home agencies to account for the cost of living in the higher-income countries. This was a difficult concept for the Government to grasp. In 1966 KOTRA's entire budget was approximately \$1.5 million with which it maintained a staff of about 250 people. This was inadequate and should have been at least doubled.

a. Sales Promotion Agency or Sales Agency?

KOTRA did obtain a small part of its income from fees charged for literature, displays, etc. Some government officials and private businessmen argued that KOTRA should act as sales agents and collect commissions for its work. This plan was rejected as it would have seriously affected KOTRA's usefulness. Priorities would have been given to maintaining existing contacts for companies already doing business and would have resulted in neglecting small and newer accounts. It also would have meant becoming involved in complaints from rival companies who might feel that their particular business was being neglected or that others were being favored. Promotion work is a slow process and must be subsidized.

In other countries such as India, Taiwan, Indonesia, etc. there are state trading companies which are actually in the business of commodity trading. The writer has insufficient knowledge of whether the trading com-

panies are in themselves an effective structure for export promotion. In Korea, however, with its private enterprise economy, he is convinced that such companies would have been unsuccessful, and that it was wiser to leave trading in private hands.

b. Other Financing Methods

There are other ways of financing this type of activity. In Hong Kong, for example, a one-half percent tax is placed on both imports and exports and these revenues are used for promotional work. In Colombia (South America), a one and one-half percent tax is placed on all imports and the funds collected are used for both promotional work and financing of export industries.

It was recommended that a sum equal to one percent of the total export trade be allocated for export promotion by KOTRA and the overseas trade activities of the Ministry of Foreign Affairs. In 1968 this tax would have amounted to \$5 million.

Another possible method of financing this work might be a combination of fees for certain types of services plus a tax. But in any event, adequate funds must be supplied if this work is to be successful.

II. Suggested Further Improvements

The following observations and suggestions were addressed to the Korean Government after the

Senior Export Advisor's final tour of Korean overseas operations:

a. Public Relations

Efficient public relations is a prime activity that must be carried on throughout the world. News releases, announcement of trade missions, visits of important businessmen, and general information about Korean products require publicity in the right places. Professional PR men who understand and know this work are expensive and can only be justified in countries which have a large mission and a large volume of business with Korea. Nevertheless, the importance of this work requires that special steps be taken. Each KOTRA center should have one man who has received special training for this purpose. He should understand how to write news releases, how to make contact with the press, how to make speeches, promote seminars and meetings, and carry on the entire work of public relations. While the present staff in many instances does good work in this field, they generally have inadequate knowledge and training of the work to be done.

b. Capitalizing on Good-Will

In a number of countries there is a great deal of friendship and good-will for Korea by local organizations. Some countries have cultural groups interested in Korea. For example, in Sweden, Norway and Denmark there are "Korean Associations." The Swedish organization has 600 members and publishes a monthly magazine called Jok (Hello in Korean). Officials of this organization are eager to be of assistance. Full advantage should be taken of this good-will. It could take the form of Korean publicity, Korean displays, etc.

In Japan and in some cities in the United States there are substantial colonies of Koreans. They almost

always have an organization of their own. Their activities should be geared into assistance with Korean displays, publicity, cultural activities, etc., as well as trade assistance. This requires organizational help by KOTRA and Embassy staff.

In a number of places local Chambers of Commerce and trade associations expressed a willingness to assist Korea. For example, in Hamburg, and in Milan, they offered to set up meetings for discussion of Korea by Korean speakers. Local businessmen would be invited to these meetings. In both Tokyo and Osaka the American Chamber of Commerce proposed to have Korean seminars to which they would invite the Korean Ambassador and representatives of KOTRA. KOTRA representatives should promote this type of activity with as many organizations as possible.

In New York, there is an organization called the "Korean-American Trade and Industry Association." An attempt to organize a similar organization in Chicago was beginning in 1967. While these organizations can be of service, the assistance they can render is limited. American businessmen are surfeited with organizations which, unless they perform a real service for their members, tend to become either organizations of local businessmen of the home country or of the representatives of big companies who attend as a matter of routine. The organization in New York is active and does perform a service. Unless there is a real interest by businessmen of the particular country to form such organizations, KOTRA officials should not devote too much time to attempt to actively organize such groups. Each situation must be judged on a case-by-case basis.

c. Training School

Because budget limitations have restricted the possibilities of employing outside professional consultants,

It is necessary for KOTRA field staff and Commercial Attachés to be "Jacks-of-all-trades." They also should be proficient in language. Therefore, personnel of KOTRA, and Commercial Attaches should attend a training school before being sent overseas. The schooling might be followed by one month of visiting Korean factories to become informed as to Korean products and potentials. At intervals of, say, three years, each overseas staff member should, during his home leave, spend one month in retraining.

Courses suggested included intensive work in English and possibly other major languages with attention to business letter-writing and speech delivery; in market research; and in practical problems of displays and public relations, including writing of news releases and newsletters. Training in salesmanship, organization of meetings, bookkeeping, and other housekeeping problems was also recommended, as were special orientation courses for the wives who accompany their husbands on overseas jobs.

d. Foreign Language Use

English today is an international trading language, however, signs, posters, pamphlets and literature should be printed in the native tongue of each country rather than in English. In some areas it might be wise to use both languages, but in every instance the native tongue should be made more prominent. This approach not only reaches more people but is also more effective with people who are sensitive to the failure to use the language of their own country.

A first-rate knowledge of the local language or of English is of great importance to Korean trade representatives and Commercial Attachés abroad. In addition, it is helpful if the wives of Korean representatives abroad also have language ability. They are called upon to partic-

ipate in entertainment and visits, and should mingle with and take part in the activities of local women's organizations.

e. News Letters and Advertising

Advertising in publications aimed at the general public is expensive and unless done on a continuous basis, is not too effective. Advertisements in connection with specific trade shows or events could be carried in trade magazines. Even these can be expensive and should be limited.

In order to direct publicity to the buyers, it was suggested that each Center publish a monthly news letter to be mailed to a selective list of traders and customers. These letters would contain information of a general nature as well as specific information directed to the country in which they are published. The impact of a continuous monthly bulletin can be effective. Depending upon the location and the size of the mailing list, this activity can be carried on for a budget of between \$2,000 to \$5,000 annually, including the services of a professional writer.

f. Travel Staff

In a number of countries and areas of the world, it would be wise to employ a full-time staff member who would travel from city to city in his area with an adequate supply of samples, literature and other display material. Possibly he should utilize a stationwagon or a small truck for this purpose.

After full advance publicity, he should set up his displays in a major hotel or other suitable location. Conceivably the local department store might be induced to house the exhibition of Korean goods. Important traders and buyers of the area would be invited to the opening,

which might include a ceremony and cocktail party. Wherever possible, representatives of the Korean companies whose articles are of particular interest to that area should be invited to send representatives. In addition, traders of that country who are buyers of Korean goods should be invited to participate. After the initial showing, there should be a follow-up by personal visits to the major traders and merchants of the city, and further follow-up should be done by the nearest KOTRA office. The travel staff member should remain in each city for a sufficient length of time to adequately cover it.

g. Local Staff Employees

A serious shortcoming encountered in the KOTRA offices was their hesitancy to hire local top-level employees or to give them responsibility. This hesitancy reflected forces for economizing, national pride and other factors. Nevertheless, just as it would be difficult for an American organization to have a trade center in Korea which would be manned entirely by Americans in its leading positions, it was equally difficult for a Korean organization to work in other countries without employing top-level local staff. In any event, it is almost essential that at least one top regional trade expert be employed in each country. Moreover, local employees should be given the responsibility and prestige in proportion to the importance of the work they are doing and should be invited to participate in conferences, either at home or in regional centers. It would seem wiser to employ one good man, paying him an adequate salary, than to have two or three inexperienced employees of a lower grade. In areas where there are multi-racial business communities such as in Singapore, Indonesia, Malaysia, etc., there should be one employee of each of the major racial groups involved.

It is not necessary that each overseas Trade Center

have more than one or two staff people from the home office. In each country, local employees can be utilized to carry on much of the work of the Center. Taking into account the cost of transportation and of maintaining a man overseas, it would, in many instances, be less expensive to hire local employees, especially for the clerical and research work. It should also be possible for unusually good local people to be brought back to Korea and trained in the work of KOTRA.

D. Other Market Development Organizations

In addition to the activities of KOTRA many private organizations and businesses participated in the market development process.

1. Korean Traders Association

Foremost among these was the Korean Traders Association (KTA) which represented the entire trading community of Korea. It had some quasi-official duties, but was a privately financed organization.

Government regulations required that every exporter obtain a trader's license and be a member of the KTA. As of 1966 there were over 700 companies and individuals engaged in selling abroad, although only about 300 were qualified to obtain a trader's license under the rules established by the government. Others worked through the licensed traders.

Many trading companies engaged in no other business, but the larger companies were also engaged in manufacturing and other types of activities. Even so these large companies, with few exceptions, handled items other than those produced by their own company. However, none of them were similar to the Japanese trading companies which are giant self-contained empires that engage in finance, banking, shipping, manufacturing,

insurance and a great many other activities.

KTA maintained an office in Tokyo which published a daily traders' newsletter translated from Korean into Japanese. It also maintained an office in New York. Most of its activities were in Korea where it devoted itself to lobbying, assisting buyers, and furnishing information to its members.

2. Korean Chamber of Commerce

The Korean Chamber of Commerce carried on most of its activities inside Korea. It was the only national business organization that maintained headquarters and staff in the 18 important cities of Korea where it served as the link between the business communities in the provinces and Seoul. It had its own export promotion division which in some areas duplicated the work of the Korean Traders Association.

3. American Chamber of Commerce

The American Chamber of Commerce was an organization of representatives of American companies doing business in Korea. Originally, most of these representatives were engaged in importing into Korea. As the export drive developed, they became more and more involved in exporting and in representing American companies interested in buying in Korea. Non-U. S. companies seeking permanent representation in Korea were more inclined to use Korean traders than employ the services of resident Americans.

4. International Trading Companies

In addition to the Korean and American traders, a number of large international trading companies had representatives and branches in Korea. There are many such companies throughout the world who have branches

in many cities. Some act as commission brokers, others as direct traders, others as representatives and some combine several roles. They may also represent shipping companies, insurance companies, investment combines, etc. Many of these companies have had a long history of trade in Asia, some as far back as the early colonial days. Most have their home bases in Europe, India, Hong Kong, Singapore, and other historically important trading centers. These companies can play an important role in any developing country.

There was a tendency by Korean Government officials to discourage the establishment of other than Korean traders in Seoul. This was a mistake as they are not necessarily competitors of Korean traders. These companies have established outlets and branch offices which can open up markets not now available to Korean producers or traders. Since they have already acquired customers who have confidence in them and will rely on their judgment and assistance, they can be invaluable in increasing Korean trade.

5. Private Company Overseas Offices

A few of the large Korean manufacturers were able to maintain overseas branch offices in New York, Tokyo, Hong Kong and Singapore. The cost to maintain such an office required a large volume of business. Some companies occasionally sent their directors or salesmen abroad for sales and contact trips. Most Korean companies, however, did their business through their customers' agents in Korea, and relied on KOTRA or private direct correspondence for representation overseas.

In some of the major world centers, young Koreans who had finished their overseas studies were attempting to develop a trading business. Most of them were inexperienced and had little operating capital.

Korean businesses were reluctant to give them exclusive representation. However, these businesses would be better off to employ Koreans living abroad because the Koreans would have more incentive to push sales than would foreign representatives serving many clients in many countries. (KOTRA, which needed local employees, represented only Korean goods.) Korean businesses should assist young Koreans now living abroad who wish to become traders or brokers for Korean products.

6. Co-operative Trading Companies

A possible approach for small companies would be to establish cooperative trading companies, each representing a number of companies selling non-competitive products. Government incentives might be developed to encourage this.

E. Department Store Exhibitions

In recent years a number of the larger department stores have organized exhibitions of products from a specific country. The trend started in 1950 when R. H. Macy's and Company organized the first Italo-American exhibition. It not only displayed Italian products, but attracted interest through artistic and cultural exhibitions, including dancing, newspapers and native foods as well as a complete array of handicraft and style items. This show attracted international attention and gave a major boost to the opening of the American market for Italian-made items.

Since that time, Macy's and other stores throughout the United States have had similar exhibitions for many other countries. These shows not only attract consumers, but attract buyers from other retail chains and individual stores all over the United States, who are eager to learn what items are being displayed by an important store such as Macy's.

In 1964, Macy's had a five-country East Asian exhibition in which Korea was included. The other countries were Japan, Taiwan, Hong Kong and Thailand. Macy's officials spent over a year and a great deal of money for this exhibition. Each country contributed a comparatively small sum to cover advertising and also contributed both personnel in the form of dancers, artists, and staff, and artifacts for background display purposes. This was the first large-scale exhibition of Korean goods and Macy's sold out the entire Korean stock which it had purchased. But more important, the exhibition opened the eyes of New York and the buyers' community to Korean products.

Subsequently, other stores in the United States organized similar exhibitions. Discussions have been held with department stores in Europe and Asia, some of which have expressed their willingness to undertake exhibitions. Store executives in countries such as the Philippines, Indonesia, Singapore and Taiwan thought that there was an insufficient quantity and variety of goods from Korea that would be of interest to the local market to justify large scale exhibitions, but they were willing to have a "Korean corner." All of them required some contribution by either Korean businessmen or KOTRA.

Preparation for such an exhibit has to be organized well in advance. Products to be exhibited must also be on the shelves ready for sale. The value of these shows lies not only in the goods that are sold during the exhibition, but in the promotion and publicity given to Korean products. The cost involved is small in comparison to the promotional returns.

F. World and Trade Fairs

International world fairs take place somewhere in the world at almost any given moment. Many of them

are of major importance. They undoubtedly have developed international knowledge of the work, culture and understanding of other countries. Politically and culturally they play an important role in world affairs.

Attendance at these world fairs is largely made up of the general public which includes the ultimate, individual purchasers of consumer goods. Many business representatives also attend. Fairs can create a general acceptance of the exhibitor's products. Unfortunately, participation is very expensive. It is doubtful whether smaller countries with limited funds available can obtain sufficient commercial benefit to justify the cost involved.

For example, it cost Korea over a million dollars, above income received, to participate in the New York World Fair. Her total overseas budget for promotion during that year was less than \$1 million. Therefore, the amount spent for participation in the World Fair would have been much better utilized for world promotional activities.

Korea participated in the Montreal fair where her pavilion was one of the most beautiful and interesting. It made a tremendous political and cultural impact and made Korea known to millions of people. The cost was over \$300,000.

In contrast to world fairs, trade fairs, which are devoted exclusively either to a particular industry or commodity, or divided into sections for specific products, attract professional buyers. The cost to participate in a fair with a booth or even a larger exhibition ranges from \$3,000 to \$15,000, plus the additional costs of transporting the goods to be exhibited, arranging the displays, providing personnel during the exhibition, advertising, and doing the follow-up work that must be undertaken to assure the best results. It is sometimes possible to get the exporters or local importers whose goods are on

display, to bear part of the cost. Trade fairs can be very productive and can certainly bring more results per dollar spent than the more generally aimed world fairs.

CHAPTER XII

SOME SPECIAL PROGRAM ELEMENTS

A. Industrial Parks

The concept of creating industrial parks has gained international acceptance because of the success of such areas in many countries. An industrial park is a small geographic entity, established either by government or private developers to attract a group of factories by providing utilities and other common facilities, and by making land available at reasonable prices. The chief purpose of such areas is to encourage industrial development. Depending upon the nature of the industries, industrial parks may help increase the number of potential exporters for a country. On the other hand, they may also have no impact at all on exports except to divert attention from other efforts more productive for export development.

In 1966 there were two such industrial parks in Korea. The first was developed on the southeast coast, a short distance north of Pusan. This was a large complex designed to cater to basic, heavy industry such as an oil refinery, a fertilizer plant, and several other large enterprises. The facilities being developed included a deep water port for ships up to 20,000 tons, water reservoirs, railroad sidings and highways; future plans included a steel mill and other major industries. This industrial area served a major need for industry requiring a location with direct access to ocean transportation. The industry in turn provided an infrastructure basis of oil and cement for other enterprises. However, the Pusan industrial park had no direct connection with exports and had not been started for this reason.

The other industrial park was in the Seoul area. It

was designed to attract successful Korean residents in Japan to undertake new, small and middle-size factories in Korea. It succeeded in doing so. Some of these factories looked to domestic markets and others to exports, including subassemblies and parts which were shipped to Japan for finishing.

Many other cities in Korea were fascinated by the idea of establishing industrial park areas. Many officials had visited Taiwan where a number of such areas have proven of great benefit. Because of publicity given to this concept there was a tendency to proceed with plans for such parks before careful studies had been made. Studies were needed to determine whether the availability of reasonably priced land in industrial parks would actually attract new industries that would not otherwise come to the specific area or country, or develop on as large a scale. Since sufficient land was available in good locations at reasonable prices in many parts of Korea, the Joint Export Development Committee recommended that a team of experts be brought to Korea to make a feasibility study of developing other industrial parks and/or free zones.

Special sites provide no means of increasing production if an ample, reasonably priced supply of land with public facilities is already available, or if they merely offer special benefits to existing plants located elsewhere in the country. This point should be stressed to counteract the glamour of industrial parks which has sometimes helped land speculators to convince government officials to grant them unjustified tax benefits and special financial incentives.

B. Free Trade Zones

A country wishing to develop manufacturing industries which import raw materials, assemble these

materials, and re-export the assembled products will develop free trade zones which facilitate this purpose. Such zones are established near shipping or aviation facilities, are physically enclosed and declared a customs free area. Many have been established throughout the world. Imported raw materials go directly into the free trade area, and the finished products are shipped from the zone without passing through the country's customs barriers. If some of the finished products are to be used locally, then customs officials check these products as they leave the zone.

Where sufficient manufacturing of this nature can be concentrated in a single area, a free trade zone can be extremely important in developing entrepôt and re-export trade. Industrial parks are sometimes developed as free trade zones for this reason, plus the advantages discussed in the previous section. Land cost, number of factories that can be attracted, and volume of business must be considered in developing such free zones.

Often the same export advantages can be realized without special facilities or grouping of plants. In effect, each plant can become a free zone where this is important for the development of an export industry. Korea did this very successfully in the case of the electronics industry, where foreign manufacturers were attracted by special arrangements that allowed them to bring in components and export assembled units without either passing through customs. The Customs Bureau did put surveillance personnel in each plant to assure that imported components did go entirely into exports.

C. Foreign Banks and Credit Information

The banking system of Korea consisted of a government-owned, central Bank of Korea (BOK), five commercial banks, and four special purpose government banks. The whole system was closely controlled by the government through the Ministry of Finance.

The Bank of Korea maintained branch offices in New York, Los Angeles, Tokyo and London. These carried on no banking activities except those concerned with foreign exchange. The Bank of Korea also had international correspondents in other banking systems. In 1966, the overseas activities were organized as a separate bank known as the Korean Foreign Exchange Bank.

Until 1966, there were no branches of foreign banks located in Korea due to government regulations. The Bank of America maintained branches on U. S. military posts which were permitted to do banking business only with U. S. personnel. It could not, therefore, be described as a foreign bank doing business in Korea.

While not disastrous, the failure to allow foreign banks to maintain offices in Korea was a handicap to trade and investments. Businessmen throughout the world, and particularly those unfamiliar with Korea, preferred to rely on information obtained through their own banking institutions. Financial transactions are carried out through such international banking facilities.

One of the problems of conducting business internationally is that of obtaining financial and credit information, and other information regarding the reputations of the companies with which business is to be conducted. Experienced businessmen throughout the world will seek to obtain such information before they agree to sign contracts, place orders or establish a line of credit.

Among inexperienced and smaller Korean businessmen there was a tendency to accept any western businessman at his face value without obtaining any background credit information. In addition, it was difficult and time consuming to obtain such information through the Bank of Korea which had to depend upon its bank connections

in the country from which the information was sought.

Foreigners wishing to do business in Korea often found it difficult or even impossible to obtain such information on Korean businessmen. There were no regular credit rating bureaus similar to Dun and Bradstreet and other business information gathering organizations which exist in the United States and other countries. American businessmen often gave orders and signed contracts with Korean companies without first making an adequate reputation and credit check. One of their reasons for not doing so was the fact that, justly or not, many of them had no faith in the information they could obtain through the Korean banks.

In 1965 the Korean Government made the decision to permit foreign banks to establish branches in Korea. As of the end of 1967, six such banks had been licensed, consisting of three American banks, two Japanese banks and one British bank. At about the same time, in 1966, the Bank of Korea converted its foreign branches into the Korean Foreign Exchange Bank.

D. Small and Medium Industries

Legally, a small industry was defined as one which employed less than 200 people, or was capitalized for less than ten million won (\$360,000). But the overwhelming majority of these factories were in a class of those with 50 employees or less. A large percentage employed ten workers or less. These small industries, and medium-size industries, however, played a vital role in Korea's development both for internal markets and for exports.

In the first place, small and medium industries produced a significant proportion -- approximately 40 percent -- of the total manufactured products. In the second place, the hope of expanding into new product lines

rested in large part on the ingenuity and ambition of small entrepreneurs. Such expansion was likely to be directed especially toward exports, because credit was more easily obtained for exports than for domestic production, and the small entrepreneurs were more dependent on credit. Also, ambitious businessmen could find a more ready market for new items overseas than at home.

This situation presented a dilemma to the government officials interested in developing exports. Administratively, more effective results could be had, and exports increased at a higher rate through the large companies. Their plants were usually more modern and their management more advanced, plus their ability to engage in sales efforts overseas and to cater to the volume requirements of buyers from the advanced countries increased the possibility of obtaining quick results. Because of their size and financial positions these companies were also in a position to maintain full-time contact with the Government and banks, and could exert political pressure to obtain assistance. Those sections of the ministries that were eager to produce records of export increases tended to favor the larger industries.

Nevertheless, it was important for the future of Korean industrial development, and for political and social reasons to give help and encouragement to the smaller companies. Development of a middle class, and with it the development of a group of management and technical personnel, is important to a viable, democratic private enterprise system.

Small and medium industries were organized into 65 trade associations with a total of approximately 7, 500 small businesses. These 65 trade associations, many of which were also cooperatives, were in turn organized into the Small and Medium Cooperative Federation. The Federation and its constituent associations provided a

channel for lobbying, education, and promotion of exports. Special attention was necessary because of the relative lack of experience of these entrepreneurs, and hence much of the technical assistance described elsewhere was directed to them.

While no export incentives were designed especially for small and medium firms, they were often used more effectively in developing new small industries and new products. Three government banking institutions devoted their entire attention to the smaller industries. These were the Medium Industry Bank which gave loans not to exceed \$200,000 to any one company; the Citizens National Bank which gave small loans to almost any size firm; and the National Association of Farm Cooperatives (NAFC) which was an agricultural bank and which gave loans to both farmers and to food processors. The NAFC also had a handicraft development division which promoted household farm industries during the winter season.

There was constant conflict between representatives of the smaller industries and the larger industries. But in balance, the government pursued a middle line which gave support to the larger industries for quick growth, while at the same time assisting the smaller industries toward further development.

E. University Research

The A. I. D. Mission had for some time sponsored a program of developing research activities by Korean organizations. Counterpart funds were given to organizations and universities which undertook research projects. The objective was to train Koreans to undertake research activities, and to develop permanent research institutions and staffs. The organizations were encouraged to prepare programs for research and to undertake the work with as little foreign assistance as possible.

An export marketing research project was undertaken by Yonsei University, one of the leading and oldest educational institutions in Korea. Since the research directors had had no previous experience in studies of export marketing, the A. I. D. Mission gave them some guidance and advice. Their first draft paid considerable attention to statistics and theory, reflecting the academic background, but limited practical experience of the staff. It was therefore suggested that they seek advice from traders and manufacturers, and develop the balance of the program on a commodity-by-commodity basis.

The final report was printed in both English and Korean, and on the whole was good. While it was not highly sophisticated, it contained a great deal of useful information and formed the basis of further work by the ministries, and by private and public organizations interested in exporting. Even more important, it created a small cadre of technicians who became familiar with the methods of research and the problems of export development.

F. Korean Marketing Association - Domestic Marketing

Early in 1966, a new organization known as the Korean Marketing Association was formed. The leadership in its formation was taken by a professor who had participated in the Yonsei University market research project, and who had attended the Market Research Institute of Stanford University. A committee consisting of 15 business executives and 15 economists and professors formed the first executive board of the organization. The business executives were principally from companies engaged in domestic marketing activities. This combination was particularly useful because it combined the academic theoretician with the practical businessman.

The first proposed program included a very wide range of research projects covering problems of exporting and domestic marketing. But, after a short time, it was decided to limit activities to the areas of domestic marketing about which little or no knowledge was available.

The movement of products from the producer to the consumer was an uncharted area. The reasons for large price differentials between producer and consumer were not clear. The internal credit structure and the number of hands through which products passed varied from industry to industry and from product to product. While there was little real knowledge, there was general opinion that the whole internal process was inefficient and costly. This in turn affected the cost of production and export marketing.

Organizations do not grow in a vacuum. The general development of manufacturing and exporting created the need for the above information, and the Korean Marketing Association appeared for the purpose of fulfilling this need. Its development should be watched.

G. Dissemination of Information to Korean Exporters

As has been stressed previously, the export program required mobilization of the entire business community and activation of all sectors, both large and small. This meant every businessman, every community, and even the most remote areas had to be fully informed of the advantages, incentives and facilities available to them. Businessmen also needed to know financing, and about shipping, licenses, inspection, quality control, packaging, new materials and methods, cost systems, and much more. In addition, exporting required marketing information, special design and technical information, and contact with the international buying community.

Since the broad program described in this study covered such a wide variety of facilities and systems, it was often difficult for smaller businessmen, and particularly those not located in the city of Seoul, to have real knowledge of all that was available to them.

The Korean Government structure was centralized in Seoul. Commodity chiefs and lower level staff of both the Ministry of Commerce and Industry, and KOTRA seldom left the main office to visit the factories and towns. The American Chamber of Commerce, A. I. D. and all of the international organizations and the foreign consulates were also located in Seoul. The only major business organizations that had branches in every city in Korea were the Korean Chamber of Commerce, some banks, and the agricultural co-operative organizations. A few of the trade organizations, particularly those involved in the seafood industry and agriculture had their headquarters in Pusan and in some of the other cities.

At the beginning of the export program, the insufficient distribution of information became quite obvious. A special working task force of the Joint Export Development Committee (EPSC) made a series of recommendations, and other moves to be undertaken, including the following:

- The Government was asked to print a pamphlet which would describe every facility and incentive available to the exporter. This never happened.
- The Chamber of Commerce arranged meetings at all its branches, at which the export program was described.
- The Chamber of Commerce, together with the local government, established an export committee in every major city.

- The two members of the EPSC steering committee, the Assistant Minister of Commerce and Industry and the Senior Export Advisor, made a series of visits throughout the country to address local businessmen, members of the Chambers of Commerce, and local government officials.
- Every provincial government developed local information sources through its industry development office.
- The Korean Trade Promotion Corporation (KOTRA) printed a weekly bulletin which was widely distributed.
- The Korean Traders' Association did the same.
- A number of meetings were held by the Ministry of Commerce and Industry, the Ministry of Agriculture, KOTRA, and the various businesses and trade organizations. These were attended by representatives from all parts of the country.
- KOTRA established a branch office in Pusan.
- Each province set up its own export development committee, and each province was given an annual quota as a target.

This general type of activity spread a great deal of knowledge, in addition to that which businessmen with initiative would themselves seek out. Nevertheless, more could have been accomplished. It was often difficult or very time consuming for a businessman to obtain information. There was insufficient contact between the lower

echelons of Ministry staffs and the smaller businessmen and smaller communities. In addition, Korean traditions of working through personal contacts often made it difficult to reach authoritative sources of information.

While there were obvious advantages in using every possible channel and in trying to build a sense of responsibility in all agencies for spreading information, a central bureau should have been established to gather the material and to do the printing. Distribution of more and better literature and information could then have taken place through the many channels described above.

A special problem was that of making technical information available in the Korean language. The EPSC working task force on quality improvement and technical assistance recommended that a center be established which would gather technical magazines and books from throughout the world, have them translated, and distribute them to the Korean technical community. Some of this work was done through the various universities and national laboratories, but again, not enough material was produced. The benefits that could have been derived would have more than justified the small cost involved.

The A. I. D. Mission's Export Development Committee recommended the printing and distribution of a Korean language pamphlet which would list the assistance that A. I. D. itself was able to give in the way of technical information, guidance, books, etc. Unfortunately, no centralized Korean agency could be found to handle the distribution of this pamphlet and process the inquiries it might generate, so the project was dropped.

Despite shortcomings, however, an amazing amount of information did reach its final goal, and the excitement generated regarding the export drive did have its effect. The basic initiative, intelligence and persistence of the

Korean businessmen caused them to seek out and make use of much of this information.

II. Motion Pictures

The production of motion pictures for export can represent a method of earning foreign exchange while simultaneously creating a cultural impact in the countries in which these pictures are exhibited. This form of export is so different from merchandise exports that it requires an entirely different promotional approach. No special effort was made to push this in Korea, but the industry is mentioned just to round out the total presentation on Korean exports.

There is a substantial production of motion pictures in Korea. They are produced with low budgets and directed almost wholly to the Korean market, which is protected by legal restrictions on imported films that can be shown in Korea. Korea was able to sell some films to other Asiatic countries, including the Philippines, Indonesia and Taiwan.

Another way to earn foreign exchange through motion pictures is to encourage foreign producers to do their shooting on location in the host country. American and European motion picture producers have, from time to time, produced pictures in Asiatic countries. Recently, there have been important films produced in Japan, Taiwan and Hong Kong. While a large scale development of this idea is improbable, it nevertheless deserves attention and effort.

CHAPTER XIII

TECHNICAL ASSISTANCE

A. Scope and Sources

Because it was necessary to develop production techniques and products that could meet international requirements, Korea required a large input of technical assistance for its export development program. The term, "technical assistance", is used here in its broadest possible sense. In addition to assistance in strictly technical areas by engineers, production experts, laboratory and research experts, it includes help in the areas of management, cost accounting, law, marketing, advertising, promotion, economics, transportation planning, shipping rates and schedules, financing, banking, insurance and other areas of business and the social sciences. Technical assistance is the most important contribution the developed countries can offer.

The United States contributed massive technical assistance through its A. I. D. program which hired many consultants and experts directly, and also financed advisors from the Department of Agriculture, Bureau of Mines, Department of Commerce and other U. S. Government agencies. The U. S. Armed Forces also made contributions which will be discussed in a separate chapter.

Other technical assistance from the United States came through private organizations and foundations such as the Asia Foundation, Korean-American Foundation, and a number of religious and university groups. The International Executive Service Corps (IESC) furnished retired technicians and business executives to assist individual Korean companies in specific problem areas. In addition, many American companies gave very important technical assistance through their buyers and resident technicians.

France, Germany, Japan and Australia provided technical help and training and exchange programs. Many international organizations gave assistance to Korea. The International Labor Organization (ILO), the United Nations Development Fund, and the World Bank sent technicians. This list of donors is undoubtedly incomplete but it conveys a general idea of the scope of the effort.

B. Coordination

With technical assistance coming from many sources and serving many purposes, the potential for duplication of efforts and even for conflicts was large. This is a familiar problem to development assistance. The A. I. D. Mission and other assistance organizations had various ad hoc committees and carried on exchanges of information in an effort to achieve coordination of their overall programs.

Within the A. I. D. Mission a staff member was assigned to keep in contact with all other multilateral and bilateral agencies engaged in development assistance and to assure coordination of all A. I. D. projects (i. e. not just export) with those of other organizations. The Korean Ministry of Economic Development, headed by the Deputy Prime Minister, also had a key role in coordination.

Within the export field, the committee structure described in Chapter IV served as one more mechanism through which to attempt coordination. However, the various working groups were usually confined to Korean members with A. I. D. advisors, and seldom included advisors from other national or international donors. For this and other reasons, the coordination was never entirely successful. One organization did not always know what other organizations were doing, and there were times when some began to be involved in similar and over-lapping programs.

Within the Korean Government, and also in Korean universities and other organizations, many people were trying to develop export programs. Some would apply simultaneously to a number of outside organizations in the hope that one of these would accept their program, and this led to duplication. Sometimes one assistance agency would reject a project after having made a careful analysis, whereupon persistent and sometimes over-ambitious sponsors would present the same project to another agency, which might proceed to duplicate the study already completed.

There was so much work necessary to expand exports that duplication seemed unfortunate, because it meant that some other need might not be satisfied. Nevertheless, it is also possible that some apparent competition simply provided an additional channel of information about exporting. An effort to enlist many entrepreneurs needed many approaches, particularly approaches which were made by Koreans themselves.

C. Specific Export-Oriented Technical Assistance

In various chapters of this report examples were given of the technical assistance applied to the specific program mentioned in that chapter. Presented in this scattered fashion, the breadth and size of the technical assistance contribution to export development may not be readily apparent. However it was one of the controlling factors, along with other essentials such as sound economic policies, the existence of entrepreneurs and traders, and the Government's adoption of a battery of special export incentives.

In order to give a better idea of the magnitude of technical assistance, this chapter brings together in a list those projects that were directly associated with the export program, and which emanated from the work of the Export Development Committee of A. I. D. , and of

the EPSC. Only those that have not been previously described in another chapter are presented in any detail. Many other types of technical assistance which facilitated general economic development and contributed indirectly to the export development program are not mentioned at all.

1. General Advisory Services

A. I. D. 's decision to give export development high priority in the Mission resulted in a major program of advisory assistance. Examples include the formation of the Mission's Export Development Committee, and the assignment of A. I. D. staff technicians to each working task force of the EPSC.

2. Apparel and Footwear Industries

- a. Mr. Jerome Udell, retired President of Gramercy Clothing Corporation, one of the largest American apparel manufacturing companies, was employed by A. I. D. to make a survey of the men's garment industry in Korea. This industry, as has been previously explained, was one of the best prospects for export development. Mr. Udell's survey provided ideas on the effective direction to take to expand the industry. Through his own contacts he was also able to interest a number of international companies in coming to Korea to purchase clothing, and in at least one instance, to form a joint venture with a Korean company for the manufacture of men's slacks.

- b. A team of nineteen persons consisting of private business technicians from the clothing industry and representatives of Korean Government organizations were sent for a three-week tour of Japan, Hong Kong and Taiwan. The objective of this team was to study methods used to develop the industry in the countries visited.

- c. A great many buyers representing American

wholesale and chain store organizations were encouraged to come to Korea. The buyers themselves as well as, in some instances, the technicians they supplied assisted many Korean companies to develop design, quality and techniques in the clothing industry. This was especially true in the knitwear sector of the industry, which advanced very rapidly.

d. In another interesting case, a large American importing company stationed in Korea two full-time technicians in the manufacturing of footwear. This included canvas, rubber and leather items. These technicians worked continuously in three factories to help them manufacture footwear acceptable to the American market. There were a number of other instances not listed here, of this very important type of private technical assistance.

3. Foundries

The foundry industry is necessary to nearly every type of metal production. Korea had many cast grey iron and brass foundries. All of them were small and produced poor quality castings. A. I. D. financed the cost of bringing to Korea Mr. Robert Niman, who had been the President of the National Foundry Corporation in New York. Subsequently, another technician was brought to Korea to follow up on his work. They helped form the Korean Foundrymen's Association and worked with the whole industry. They also assisted engineering and vocational schools in their training programs.

A team of foundry technicians led by Mr. Niman spent three weeks in Japan studying the foundry techniques used there. A. I. D. also financed the purchase of experimental foundry equipment and testing devices for the National Industrial Research Institute (NIRI).

4. Mining

We have previously described in Chapter VIII the assistance to the mining industry. This assistance was begun long before the beginning of the export drive, but proved instrumental in this effort.

5. Handicraft

As discussed in Chapter VIII, A. I. D. hired a full-time technician who was an expert in the development of handicrafts. His primary objective was to assist Koreans in developing designs and products in this field, that would be acceptable to the international markets.

6. Taegu Development Project

The Taegu regional development project described in Chapter IX, was supplied by A. I. D. with four full-time technicians for a period of one year, plus staff assistance and financing of laboratory equipment.

7. Wigs

The human hair wig business discussed in Chapter VII, was greatly assisted by American companies.

8. Shrimp

A consortium of French companies who were purchasing shrimp supplied a full-time assistant to help develop a product for the French taste.

9. Quality Control

The efforts for quality control and development were described in Chapter IX. The technical assistance in this area included two full-time technicians supplied by A. I. D. , two team trips to Japan and Taiwan, and in-

dustry experts from the I. L. O. and A. I. D. working with the Korean Productivity Center. Laboratory equipment was supplied to NIRI as well as to regional laboratories. Displays, discussions and exhibitions were sponsored, and a quality control engineering society was organized.

10. Taiwan Private Enterprise Workshop

Early in 1964 the Government of Taiwan sponsored a ten-day Asiatic private enterprise workshop, devoted to problems of foreign investment and trade. Representatives from all the Southeast Asian countries attended. A. I. D. /Korea financed a team of 14 high-level Korean Government and business executives together with the Senior Export Advisor. The exchange of ideas and information about each other's activities was of inestimable value. The Koreans were particularly interested by the foreign investment program that had been so successfully developed in Taiwan.

11. Management Impact Team

A. I. D. sponsored a team of top-level Korean management executives on an extensive tour of American industry. While this team was not sent in direct connection with the export program, the tour included visits to department stores and factories where the Koreans were able to observe the requirements of the American market. A similar team of seventeen Korean businessmen and executives, sponsored and financed by the Korean Businessmen's Association, also made an extensive tour of the United States. A. I. D. /Korea, A. I. D. / Washington and the Department of Commerce helped arrange the tour and supplied guides.

12. Marketing Techniques and Market Research

- a. Mr. Jerome Udell worked for several months

making a survey of the Korean Trade Promotion Association's (KOTRA) organization, and its activities in its main office in Seoul. He recommended many policy, structural and procedural changes. While not all of the changes were accepted or adopted, KOTRA did make important improvements in its organization based on information supplied by Mr. Udell.

b. A. I. D. supplied to the Korean Productivity Center, an expert in marketing who worked with Korean companies to train them in salesmanship and other marketing techniques.

c. On four successive occasions, A. I. D. financed four Koreans each year to the six-weeks summer course given by the International Marketing Institute at Cambridge, Massachusetts. These men were middle-level management and government agency executives. They also spent another six weeks traveling throughout the United States visiting factories, stores, merchandising marts, etc. Upon their return to Korea, A. I. D. guided a follow-through effort under which they participated in lectures, radio broadcasts, and seminars and wrote many articles to spread the newly acquired knowledge throughout Korean industry.

d. In 1967, A. I. D. developed and financed a contract under which the International Marketing Institute of Cambridge provided four technicians for a period of two years to assist in the development of market research institutions. The four fields represented were industrial products marketing, agricultural products marketing, market research training, and domestic marketing. The four-man team organized seminars and study

groups and worked closely with MCI, KOTRA, the Korean Chamber of Commerce, the Korean Marketing Association, and the National Association of Agricultural Cooperatives.

(e) A. I. D. used counterpart funds to finance the development of research training for Korean organizations. We have described the Yonsei University research projects on export development which benefited from A. I. D. technical help financed in this manner.

(f) The Senior Export Advisor devoted one year to the Korean Government's overseas trade activities, during which he travelled to twenty-six cities in twenty-two countries to work with the Korean trade centers, embassies and attaches. He assisted their staffs in making contacts with the United States Embassy officials, and in many instances with the international buying community. A result of this trip was a series of recommendations to the Korean Government on the problems of sales development in each of the countries visited, and recommended actions to be taken by the Korean Government to develop new activities and correct inhibiting practices. (See Chapter XI.)

13. Consumer Display Center

In 1966, A. I. D. brought to Korea a number of short-term consultants to develop plans for a consumer goods display center. Hong Kong, New Delhi, Copenhagen and other important cities have found it useful to have a centrally located display area which tastefully shows those products of the country which are particularly attractive to tourists and consumer goods buyers.

14. Technical Publications

The Technical Journal and Technical Information Service offered by A. I. D. /Washington were available to the A. I. D. Mission. Unfortunately, these were not used as successfully as they should have been. A Korean unit was necessary to channel the questions and information, however, the Mission did not have the manpower, and recommendations for a Korean organization were never fulfilled.

15. Other Technical Assistance.

In addition to the technical assistance already provided, the EPSC has made recommendations to bring to Korea technical consultants in export insurance, international arbitration, industrial estates and free zones.

CHAPTER XIV

MILITARY PURCHASING

There has been widespread international opinion that purchases by the U. S. Armed Forces for use in Korea and in Vietnam were a major factor in the development of Korean exports. The facts do not bear this out.

The figures given at the beginning of this report of an increase in Korean exports from \$84 million in 1963 to nearly \$500 million in 1968 exclude sales to U. S. military forces in Korea. Moreover, these military sales did not increase at a comparable rate. These sales had been approximately \$35 million annually between 1960 and 1964. In 1964 the figure was \$34, 410, 000. In 1965 there was an increase in sales to \$38, 542, 000 and the goal for 1966 was \$50, 000, 000 whereas exports more than doubled in this time. There is an obvious built-in limitation in the possibilities of large increases in sales to the U. S. military because of the U. S. gold flow problem, the inability of Korean industry to produce many of the items required, and the limited requirements.

The percentages of commodity exports to Vietnam as compared to total exports is as follows:

1961	0. 1%
1962	0. 2%
1963	14. 0%
1964	5. 3%
1965	8. 4%
1966	5. 5%
1967	2. 3%

The 1963, 1964 and 1965 figures reflect Korea's supplying galvanized iron sheet which was in short supply. As is

evident, these sales met a temporary military need but did not add permanently to Korean exports.

Korea did gain foreign exchange earnings through remittances from Korean soldiers and civilians stationed in Vietnam. Korean contractors were also able to obtain service and construction contracts. While the latter were helpful to her economy, they did little to develop her export industries.

Despite the limitations on expanding military purchases, the possibilities of a further development of sales to the military were investigated. Such sales could not only serve the purpose of a limited increase in dollar earnings, but would also help Korean industry to develop products that could later be sold commercially. The U. S. Army had already done a good deal of work in assisting Koreans to produce new products such as rubber tires, auto batteries and processed shrimp acceptable to its high standards.

Since this activity on the part of the U. S. military was strictly limited to Korea, it is not transferrable to other countries seeking to develop their own exports. However, there is a principle involved, that of the possibilities of developing temporary markets as an interim measure while more permanent markets for the same products are being located.

With the cooperation of the Korean Purchasing Agency of the U. S. Armed Forces (KPA), a list of items purchased from non-U. S. sources was examined. Numerous discussions were held in Seoul, Tokyo and Washington. At the request of the U. S. Country Team (Armed Forces, A. I. D., Embassy) a team was sent to Korea from the Department of Defense in Washington to study ways of assisting the process of increasing procurement.

KPA gave five Korean companies contracts to produce jungle boots and three companies contracts for

fatigue uniforms, both for the Vietnamese Army. To make it possible for the Korean companies to meet its strict specifications, the United States Army supplied technical assistance of both a direct and indirect nature. It is important to note that the conditions for granting these contracts to Korean companies required them to meet international price competition. The U. S. Army also helped in the development of several other products which were later suitable for export.

When Korean businessmen first became aware that there might be possibilities of increased trade with Vietnam, they tended to believe that almost any product could be sold at any price. Lists of items were presented which could not possibly meet the price and specification requirements. Subsequently, a more realistic approach to this problem was developed.

As a general policy, exports to Vietnam were encouraged only for industries with idle capacity, or with a potential for shifting sales from Vietnam to expanded longer-term domestic and export markets.

Illustrative of the first case was the galvanized iron-sheet industry. Since there was only a very small domestic market for galvanized iron sheets, it was unwise to expand this industry. However, it was alright to draw upon its otherwise idle capacity. The structure of the industry, which required the import of all its raw materials from great distance, with delivery of finished products over great distances, was not conducive to permanence, nor to a significant gain in net foreign exchange. Eventually, sales of this product to Vietnam ended.

The uniform and shoe industries developed for Vietnam were examples of the second possibility. Although these were developed for military products, they were able to continue in and expand in the civilian field.

CHAPTER XV

TOURISM

The Korean Government and the A. I. D. Mission were pursuing every possible way to increase earnings of foreign exchange. In some countries tourism has become the second or third largest earner of foreign exchange. It is an expanding industry. The increase in the availability of inexpensive air transportation has opened up new markets for world tourists.

In addition to earning substantial amounts of foreign exchange, tourism could assist the whole commodity export program by spreading world knowledge of Korea and its products, providing a market for souvenirs, giftware, antiques and handicrafts, and by providing comfortable hotel facilities attractive to buyers and businessmen who might become importers of Korean products.

Because Korea had been isolated from the outside world and transportation to Korea was limited, its tourist trade had not developed to any great extent.

The best potential source of tourists was Japan. With the conclusion of the Korean-Japanese normalization treaty, and the subsequent opening of Korea to the Japanese, there was every hope that the Japanese would come to Korea in large numbers.

Efforts to promote tourism, within the Ministry of Transportation, were headed by General Kim Il Hwan, President of the Korea Tourist Bureau. This is a government agency, under the jurisdiction of the Ministry of Transportation.

Tourist development was not tied to the export program or its organizations, and the EPSC was not

involved in this activity.

There existed, on paper, a Korean Tourist Association which was supposed to include all elements involved in tourism, such as travel agents, hotel organizations, transportation, restaurants, entertainment, cultural and educational institutions. Unfortunately, this organization never became more than a paper structure.

In 1961, under the sponsorship of the U. S. Department of Commerce, a study entitled "The Future of Tourism in the Pacific and Far East" had been made by Checchi & Company of Washington. One chapter out of twenty-one was devoted to Korea. This report predicted that by 1968 there could be 120,000 visitors coming annually to Korea. Although the record showed that in 1965 approximately 32,500 visitors came to Korea, only about 1,000 were actually tourists. Even the total figure seemed small in comparison to the possibilities.

A casual evaluation indicated that Korea possessed the potential for substantial tourist earnings, and tourism deserved attention and development. Seoul and Korea have very many interesting and beautiful palaces, museums, parks, markets, and other places of historical interest and natural beauty. Korean products, properly displayed and with proper store service could develop substantial earnings from tourists' shopping.

It also did not take long to discover that even from a layman's point of view, the facilities available were inadequate and not up to international standards. The conditions, facilities and services described in the Checchi report as then existing had hardly changed from 1961 to 1964. There was no deluxe class hotel in existence. Restaurants, transportation and tourist shopping were not up to the standards that would invite the international middle-class tourist. For the practical reason of earning foreign exchange, it was important to attract the profitable

trade and to direct all efforts towards those tourists who would spend the maximum amount during their stay in Korea.

The Koreans' concept of a vacation which they enjoyed consisted of going to one of the mountain areas, often built around an old Buddhist temple, and resting quietly in simple surroundings, enjoying the beauty and tranquility of nature. The Korea Tourist Service had built a number of tourist hotels in various parts of Korea in the mountains and remote cities. There were plans to build additional isolated hotels and to spend money on aerial tramways and roads to mountain temples and remote areas. There was also a scheme to develop Cheju Island into a sort of Bermuda. Such facilities as these, however, did not meet the needs of international tourism.

The effort to develop Korea's potential for tourism began early in 1965 when the Pacific Air Transport Association held a convention in Seoul. This brought a great many professional tourist agents to Korea. With the Minister of Transportation as principal speaker, A. I. D. arranged a meeting of the leading wholesale tourist agents to discuss with them the steps that should be taken to develop tourism.

Seoul was a side trip at extra cost on the international air route between Japan and Hong Kong. These agents introduced a resolution at the conference requesting steps be taken to include Seoul as a "free stop" in air travel. Subsequently, this was adopted by International Air Transport Association (IATA) and implemented by the airplane companies. It has been very helpful.

A series of conferences was held with the whole range of public and private officials interested in tourism. Many suggestions were discussed and some were adopted. At the request of the Minister of Transportation, A. I. D.

brought Mr. Morton D. Kauffman to Korea as a consultant on tourism. After months of work, he prepared a detailed report in July 1966, with recommendations for action. He predicted that in the year 1971, there will be 200,000 visitors to Korea who will spend approximately \$100 million in foreign exchange. If realized, this will make tourism the second largest foreign exchange earner after manufactured goods. He clearly indicated, however, that these predictions will come true only if suggestions and recommendations contained in his report are carried out.

The Korean Government has taken many steps to implement the suggestions made in the Kauffman report. Among others, they translated and printed it in full. They also printed and widely distributed throughout Korea, chapters devoted to special aspects such as hotels, travel agents, and entertainment.

In addition, two Korean hotel managers spent three months at the University of Hawaii Hotel School, and one representative from the Government Bureau of Tourism spent three months training at the Hawaiian Tourist Center. Upon their return, they visited many Korean hotels to spread the knowledge they had received during their training.

In his report, Mr. Kauffman found a need for a minimum of 500 new, deluxe hotel rooms. At the request of the Minister of Transportation, the writer communicated with the three leading American hotel chains. All three became actively interested in the possibility of building a new deluxe hotel. By that time Korean Government authorities had decided that building more facilities in the countryside would not be productive, and supported instead the possibility of a major hotel expansion in Seoul. The Korea Tourist Service, following a Kauffman recommendation, sold their isolated hotels.

In 1967, American Airlines entered into a partnership agreement with the government-owned Korean Tourist Service to build a \$10 million, 500 room hotel in the center of Seoul. In addition, with ROK-sponsored financing, a number of existing hotels are expanding and improving their services and facilities.

Tourism is already substantially increasing. In 1967, 84, 216 visitors came to Korea, exceeding Mr. Kauffman's prediction of 61, 000. Many groups of Japanese are coming to Korea, and a number of important conferences and conventions have been held there.

However, the number of tourists, the length of their stay, and the amount they spend here will be determined by the continuing positive action taken by the Korean Government and the businessmen involved in tourism, to improve their facilities, restaurants, transportation, hotel service, museums, entertainment, cultural attractions and all other facilities that are necessary for this purpose. Much is still to be done.

CHAPTER XVI

CONCLUSION

Because of the number of problems presented in this study, the reader may have the impression that the whole export effort was beset with a host of difficulties and setbacks, and may wonder how the program was so successful. We have set forth these problems in some detail, precisely to indicate that this development was neither easy nor simple to achieve. Not all problems have been solved. Despite these difficulties, the results were successful due to planning, organization and desire. While there is no doubt that the Korean people have a native ingenuity, intelligence and industrious ability, these attributes would not by themselves suffice to create the tremendous increase that the export development program achieved.

What the Koreans achieved can and has been achieved elsewhere. Although the writer has only been able to study the export development activities in a few countries, it has become obvious to him that in those countries where desire, planning, organization, and incentives have existed, the programs have been successful. Hong Kong, Taiwan, Singapore, Israel, and Colombia (South America) are examples of developing countries in which mobilization of the resources, and planning created successful export development. In a number of other countries in which export programs were attempted without the basic elements utilized by Korea and the other countries mentioned above, the programs have not been as successful. Although local conditions determine specific methods, salient features developed in Korea can be applied elsewhere.

Finally, lest there be any wrong impression, it should be noted that the success of the Korean program

was mostly due to the efforts of the Koreans themselves. Government, private organizations, businessmen and Korean workingmen have each contributed their share. Whatever part we outsiders have been able to contribute to this effort has only been possible because of the determined Korean drive to export.

It has not been easy for a people whose tradition, philosophy and history was one of learning rather than trade to combine the best of their old traditions with the modern ways required to develop an industrial economy. They are succeeding beyond the fondest hopes of several years ago.

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APPENDIXES

APPENDIX A

Questionnaire on Conditions for Export Development

For anyone undertaking or deciding to undertake an export development program in a developing country, the following is a list of questions which should help him decide: (1) whether there is a possibility of launching such a program with any chance of success; and (2) what he must look for in order to implement a program.

It is not intended that every condition mentioned in this questionnaire must be answered in the affirmative. It is intended, rather, that this be a check list to guide in research and activities.

I. Background

A. Economic

1. Do economic policies and conditions justify an export drive?
 - a. Is there a combination of exchange rate, import and domestic price stabilization policies that are likely to:
 - (1) keep domestic price levels competitive in international markets;
 - (2) permit relatively free and timely import of essential production inputs for the export industries;
 - (3) avoid comparative price disincentives to exporters?

b. Is there the ability to develop and sustain growth in agricultural and industrial products that could be exported?

c. Is there adequate financing facilities for export industries?

d. Is there a government development strategy giving export a high priority, e. g. , higher than import substitution and protection of domestic industry -- policies that generally induce actions that raise costs in export industry and otherwise impede export expansion?

B. Political

1. Is political stability adequate to support a sustained export drive?

2. Is there a real desire for and understanding by top-level government officials, of the requirements for an export drive? Or, is the expressed interest merely lip service?

a. Are officials prepared to translate this desire into organization, and to allocate sufficient financial assistance necessary to carry on this work?

b. Are they prepared to make the necessary economic policy adjustments and to create the necessary business incentives?

3. Does the government desire advice and technical assistance from A. I. D. ? Will it give full cooperation?

C. Business

Assuming government willingness to create incentives within a conducive economic environment:

1. Are businessmen making profits that might be seriously disturbed by a shift to export products?
2. Are there counteracting incentives that can be used to mobilize business support?
3. Is the business community likely to respond to such a drive?
4. Conversely, does a sufficiently large sector of the business community desire to develop exports, so that it will exercise its influence upon the government to carry out the necessary steps for such a drive?

II. Implementation

Assuming a sufficiently positive response to the above questions to make it feasible to proceed, the following questions should be considered.

A. Products

1. What products are now available for export?
2. What products can be developed for:
 - a. export in the immediate future;
 - b. in the more distant future;
 - c. in the long-range future?

Criteria for answering the second question include availability of raw materials, transportation, technical and mechanical know-how, labor supply, and finance, and the possibilities of products that can be manufactured by industries that require small capital investments for expansion. Generally, the best choices are products that use the resources that are in most plentiful supply in the country, or that otherwise have natural cost advantages.

3. Is there an understanding of the nature of the market for these products? Are there markets related to the specific available products?

B. Competition

1. What countries are the strongest present or potential competitors?

What competitive products do these countries sell? To whom? In what quantities?

2. Do indigenous products meet foreign competition in quality, price, delivery time, financial terms offered?
3. If not, in what products is there a reasonable possibility of making the necessary improvements?
4. What is the overseas reputation of indigenous products?

Criteria include: quality, design, packaging, and delivery time, and business methods, honesty, stability, procedural time requirements, handling of correspondence and complaints,

credit facilities, financial stability and responsibility.

C. Incentives for Support

What incentives exist, should be strengthened or developed to make exporting attractive and legitimately profitable? Within the bounds of reasonable overall economic policies and budget limitations, study desirability and feasibility of the following measures and methods:

1. Tax incentives - income tax deduction on expanding export profits; tax free raw material imports; accelerated depreciation on equipment for expansion; deductions for overseas travel and promotion, research, training of personnel, etc.;
2. Credit incentives - low interest loans on L/C's; raw material stockpiling; financing credit to customers; capital and machinery loans;
3. Indirect subsidy incentives - special rates on transportation and power; use of government facilities;
4. Tariff limitations - restrict tariffs to those which increase incentives to establishment of efficient export industries;
5. "Import substitution" - is there an existing program and what are its incentive effects on exports?
6. Direct or indirect subsidies - are all the above "across-the-board", or are they directed to specific industries?

7. Whether this entire program (questions 1 to 6) will tend to create permanent subsidies and inefficient industries?
8. Whether steps can be taken if this problem exists to reduce or eliminate it?
9. Priority preferences on available raw materials, equipment, transportation, labor technicians.
10. The development of research, productivity, testing standards.

D. Organization for Export

1. Is there a government export organization?
 - a. Is there one agency or ministry, or is responsibility divided?
 - b. Is there an overseas Trade Promotion Agency?
 - c. What other governmental organizations exist in this field?
2. a. How is business organized?

What organizations exist for: Traders; Exporters; Manufacturers, Trade promotion; Marketing; Accounting; Law. Are there Chambers of Commerce?

- b. Can these cooperate in support of an overall export drive?

E. Banking

1. Do host country banks conduct international banking activities and have branches abroad ?
2. Do foreign banks have branches in the host country?
3. What credit facilities are available?

F. Overseas

1. Is there organized overseas private or public export promotion? Is this effective, amply financed, is the personnel trained?
2. How effective are the commercial attachés at the embassies and consulates?
3. Are there any friendly overseas organizations such as foreign country Chambers of Commerce, cultural or special foundations, etc. ?
4. Is there an overseas population of persons born in the home country or their descendants, and are they organized to help?
5. What international organizations may be utilized to assist local export development, e. g. GATT, UNCTAD, Commonwealth Nations, Free Trade Zones, Regional Trade Organizations, Regional Productivity Organizations, etc. ?
6. How does relationship with any of these organizations affect trade?

G. Total Mobilization

1. What steps must be taken for coordination, if it does not already exist, of all elements necessary to form an all-inclusive "Export Development Organization?"

This might include Economic Ministries, Foreign Ministries concerned government and quasi-government agencies, customs officials, business organizations, banks, trade organizations, and productivity, inspection, standards, educational, vocational, transportation and trade union organizations.

H. Collateral Organization and Agencies

1. Do any organizations or agencies exist which are concerned with the following problems, and if not, and if required, what steps can be taken to form such organizations?
 - a. Productivity,
 - b. International Arbitration of Disputes,
 - c. Export insurance,
 - d. Overseas private and/or public sales promotion,
 - e. Export inspection,
 - f. Standards,
 - g. Quality control,
 - h. Export research,
 - i. Statistical information,
 - j. Cost control,
 - k. Design and product development,
 - l. Packaging,
 - m. Free trade zones,
 - n. Education and training.

I. Personnel Availability

1. What trained personnel are available in areas that affect exporting, especially in marketing, salesmanship, accounting, law, market research, market publicity and promotion?

J. Procedures

1. Are there excessive red tape procedures required for export, import, travel, financing, licensing, customs clearances?
2. If so, what steps should be taken to reduce these?

K. Cultural and Traditional

1. How do patterns of native culture, and traditions affect day-to-day business relationships between native and foreign businessmen, for example: promises, requirements of politeness, meaning of contracts, etc. ?
2. Are there any traditional dislikes of certain countries that affect trade?
3. In countries with several distinct ethnic, national or religious groups, are there conflicts that affect trade?

III. Other Export and Foreign Exchange Earning Possibilities

- A. Tourism
- B. Shipping
- C. Insurance

- D. Remittances from citizens working overseas
- E. Sales to U. S. Armed Forces
- F. Remittances from overseas investments.

IV. Foreign Investments

How much are investments by foreign companies related to exports? Could they be more so? A study should be made of whole field of foreign investment.

V. A. I. D. Staff Requirements

- A. The Director of the export development effort should be a man with wide business experience, and preferably with production knowledge.
- B. He must be a person able to understand and be tolerant of local country habits, business methods and culture, and the frustration of working in difficult situations.
- C. He must be placed at a high level in the Mission, with complete support by the Director, and have the cooperation of every section of the Mission.
- D. He must have access to high level local government and business officials.
- E. He must be given adequate "representational" budget.
- F. He must be a good salesman and mixer.

The following Appendixes B thru G inclusive are copies of detailed reports for 1965 and 1966 which were made to evaluate progress and actions, and which were used as a guide for further actions.

They are presented here to show the details and variety of activities that were undertaken.

- Appendix B - Analysis of EPSC Activities - 1965
- Appendix C - Analysis of Export Promotion Policy Program Actions - 1965
- Appendix D - Analysis of EPSC Activities 1966
- Appendix E - Analysis of Export Promotion Policy Program Actions - 1966
- Appendix F - Export Commodities Exceeding Target January-August 1966
- Appendix G - Export Commodities Below Target January-August 1966

Appendix B

ANALYSIS OF EPSC ACTIVITIES - 1965

<u>Proposals, Instructions or Recommendations</u>	<u>Type of Action Taken</u>	<u>a. Favorable Results</u>	<u>b. Under Action by</u>	<u>c. No Action Pending</u>	<u>Total</u>
I. <u>Finance & Taxation</u>					
1. Lengthy Report & Recommendations by Steering Committee referred for analysis	Study made, but no conclusion.		W/G		
2. New system on export credits			MOF		
3. Abolishment of the ceiling system				W/G	
4. Distribution of export promotion funds within various sectors of agriculture			ROK MOF MOAF & MCI		
5. Financing for marine products and manufacturing	Extended to mushroom sector.				
6. Government subsidies for swine & cattle exports	MOF consult with EPB.				
7. Study the export usance program & report its findings to EPSC	MOAF & MCI consult with EPB.				
Finance & Taxation W/G TOTAL		0	5	2	7
II. <u>Agriculture</u>					
1. Signing of ROK-US Sanitation Agreement			MOFA		
2. Establish program covering the entire area of agriculture productivity			MOAF		
3. Request for marketing and quality control specialist from USA			MOAF W/G		
4. Export promotion fund to the agricultural products		Accepted			
5. Mushroom industry as a specialized export industry				W/G	
6. Special development of ginseng exports			USOM		
7. A livestock advisor be invited from USA		Reported			
8. Report export program in the monopoly industry			USOM		
9. A foreign expert on animal husbandry be invited for six months					
10. Repayments for raw silk export loans be extended to six months				FAT	
11. PL-480 wheat be processed into flour in Korea and transshipped to Vietnam			Ad hoc (USOM)	W/G	
12. Mushroom cultivation problem					
13. Proposals for the development of mushrooms, tomato and apple products for export				W/G	
Agriculture W/G TOTAL		2	7	4	13

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<u>Proposals, Instructions or Recommendations</u>	<u>Type of Action Taken</u>	<u>a. Favorable Results.</u>	<u>b. Under Action by</u>	<u>c. No Action Pending</u>	<u>Total</u>
III. Fisheries					
1. Improvement of fishing facilities			USOM & EPB		
2. Equipment for deep-sea fishing as raw materials for export				MCI	
3. Importation of raw materials for export prior to L/C			MCI		
4. Comprehensive report on marine product manufacturing funds				F&T	
5. Investigation of seed oyster export and shipment of sample to US.				W/G	
		<u>0</u>	<u>2</u>	<u>3</u>	<u>5</u>
Fisheries W/G TOTAL					
IV. Mining					
1. Mineral export target for next 3 years be increased by \$2 million annually		Worked out			
2. Government subsidies for price difference between purchasing & market price	MCI studying for necessary action.		MCI		
3. Government restriction on export of lead concentrate to Japan	MCI studying for necessary action.		MCI		
4. Increase dolomite export to Japan from 12,000 to 100,000 tons	MCI referred to MOFA for action.			MOFA	
5. Special inducement to mines producing ores for import replacement				MCI	
6. Overall plan for development of mineral processing facilities		Worked out			
7. Consult with F&T W/G on its possibility of exporting gold				MCI & F&T	
8. Detailed report on mining export problems	Reported to EPSC	Reported			
9. Mine owners sell one third of lead ore to Changhang Smelter before export	Gov't made provisions.	Yes			
10. Sales of gold to BOK 100% by Changhang Smelting Corporation	Saleable only 20% and rest to open market.	<u>Partial</u>	<u> </u>	<u> </u>	<u> </u>
		<u>5</u>	<u>2</u>	<u>3</u>	<u>10</u>
Mining W/G TOTAL					

<u>Proposals, Instructions or Recommendations</u>	<u>Type of Action Taken</u>	<u>a. Favorable Results</u>	<u>b. Under Action by</u>	<u>c. No Action Pending</u>	<u>Total</u>
<u>V. Light Industry</u>					
1. National Handicraft Center & Technical Assistance for handicraft	Comprehensive plan has been prepared (USOM bringing an expert).	Yes			
2. Development of silk weaving industry and improvement of sewing industries			MCI		
3. Establishment of a cottage industry & handicraft display center	Full plan being prepared.		KTS & KOTRA		
4. A plan for establishment of a cottage industry center prepared by the City of Seoul	Review necessary.			W/G	
		<hr/>	<hr/>	<hr/>	<hr/>
		1	2	1	4
Light Industry W/G TOTAL					
<u>VI. Heavy Industry</u>					
1. Recruit a foundry expert from the U.S.	An expert is assigned to USOM.	Yes			
2. Assignment of commodity chiefs in mechanical, electrical, transportation equipment	Assigned by MCI	Yes			
3. Utilize Korean export task force in Vietnam to explore export opportunities			MCI		
4. Review the export program to Vietnam by special group	Special Group meeting held	Yes			
5. Comprehensive report on problems of exports affecting heavy industry				W/G	
		<hr/>	<hr/>	<hr/>	<hr/>
		3	1	1	5
Heavy Industry W/G TOTAL					
<u>VII. Simplification of Procedures</u>					
1. Establishment of Shipping Center	Established already in KOTRA.	Yes			
2. Study method to simplify procedures for export and import	Partially simplified.	Yes			
3. Requirements for businessmen travel abroad	Four steps out of six eliminated	Yes			
4. Need for inviting foreign experts on simplification of procedures				W/G	
5. Utilization of Korean Research Institutions for simplification of procedures.				W/G	
		<hr/>	<hr/>	<hr/>	<hr/>
		3	0	2	5
Simplification of Procedures W/G TOTAL					

<u>Proposals, Instructions or Recommendations</u>	<u>Type of Action Taken</u>	<u>a. Favorable Results</u>	<u>b. Under Action by</u>	<u>c. No Action Pending</u>	<u>Total</u>
VIII. <u>Information</u>					
1. Prepare a pamphlet showing the benefits available to exporters in the program			W/G		
2. Study means to improve overseas promotion program, reflect it to KOTRA budget				MCI	
3. Publicity in the Daehan News			W/G		
4. Develop better plans for spreading information on export promotion drive			W/G		
5. Banks role in distributing information to their producer clients				W/G	
6. Pamphlet to provide technical information and US customs procedures & regulation					
Information W/G TOTAL		<u>0</u>	<u>W/G</u> 4	<u>2</u>	<u>6</u>
*X. <u>Exporter/Importer Relations</u>					
1. Establishment of an arbitration commission	Decided to establish in Chamber of Commerce of Korea.	Yes			
Exporter/Importer Relations W/G TOTAL		<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
X. <u>Marketing Analysis and Research</u>					
1. Invitation of an US expert to work with KOTRA	Mr. Udell is here already.	Yes			
2. Recruit a specialist in the marketing of marine products	USOM has requested AID/W		USOM KOTRA KOTRA KOTRA		
3. Increase KOTRA staff at overseas trade center					
4. Send annual trade mission to Europe					
5. Establishment of six new trade centers					
6. Prepare plans for activities by the private and public organization				MCI	
7. Assignment of staff for market research in different export associations				W/G	
Marketing Analysis and Research W/G TOTAL		<u>1</u>	<u>4</u>	<u>2</u>	<u>2</u>

<u>Proposals, Instructions or Recommendations</u>	<u>Type of Action Taken</u>	<u>a. Favorable Results</u>	<u>b. Under Action by</u>	<u>c. No Action Pending</u>	<u>total</u>
<u>XI. Quality Improvement & Technical Assistance</u>					
1. MOAF & NTRI coordinate their work on quality inspection of export products	Mr. Oh, MCI and Mr. Goodrich, USOM work on it.		MCI & USOM		
2. Study and recommend the entire field of technical assistance requirement	Mr. Oh, MCI and Mr. Goodrich, USOM work on it.		MCI & USOM		
3. Utilization of Koreans trained abroad				W/G	
4. Recruit two US specialists on quality control and plant layout and management	Recruit by USOM - one here	Yes			
5. Common utilization of local inspection facilities				W/G	
6. Establishment of a National Technical Information Center				W/G	
7. Send responsible officials abroad to observe inspection system	Financed by USOM - departed 7/21/65 (13 sent).	Yes			
8. Special study on quality control of goods to FEES market	US quality control consultant here.	Yes			
9. Invitation of an expert for technical information services as requested by KORSTIC	Approved and referred to MCI & USOM.		MCI & USOM		
10. Improvement of testing facilities for NTRI and Kyungbuk Provincial Testing Lab.	Portion of funds made available.	Partially			
11. Consider agriculture and fisheries field for NTRI participant training program				W/G	
Quality Improvement & Technical Assistance W/G TOTAL		4	3	4	11
<u>XII. Export to Vietnam</u>					
1. Establishment of a new work task force		Established			
2. Subsidy for transportation on cement to Vietnam	Accepted by MOT, KSC for implementation	Yes			
3. ROKG's recommendations on export to Vietnam	Under consideration by USOM		USOM		
4. Realistic study of level of potential exports to Vietnam				W/G	
5. To shift "US only item" to "Limited World Wide" which can be supplied from Korea	Referred to Washington		USOM		
6. Realization of the US-ROK-SVN triangle trade by processing PL-480 items in Korea			USOM		
7. Assignment of a permanent representative to Japan to maintain contract with HPA & FEES				MCI	
8. Establishment of Vietnam Export Center in KOTRA		Established			
<u>Export to Vietnam W/G TOTAL</u>		3	3	2	8

<u>Proposals, Instructions or Recommendations</u>	<u>Type of Action Taken</u>	<u>a. Favorable Results</u>	<u>b. Under Action by</u>	<u>c. No Action Pending</u>	<u>Total</u>
XIII. <u>Steering Committee and n.e.c.</u>					
1. Request report from Committee of MCI in technical training program			MCI		
2. Prepare full report after 30 June on entire export program	To be reported by MCI and KOTRA	<u>Yes</u>	<u> </u>	<u> </u>	<u> </u>
Steering Committee and n.e.c. TOTAL		1	1	0	2

<u>Proposals, Instructions or Recommendations</u>	<u>Type of Action Taken</u>	<u>a. Favorable Results</u>	<u>b. Under Action by</u>	<u>c. No Action Pending</u>	<u>Total</u>
I. <u>Finance & Taxation</u>					
1. Enforcement of Export Bonus	Report submitted to MCI & USOM	Yes			
2. Revision of Foreign Exchange System	Floating of the exchange rate adopted	Yes			
3. Enforcement of single flexible exchange system	Floating exchange system implemented	Yes			
4. Liberation of trade by gradual removal of quota system	Implemented	MCI			
5. Intensive encouragement of export commodity production firms		MCI			
6. Preferential payment of production encouragement funds				MOF	
7. Raise of loan percentages		MCI & MOF			
8. Expansion of funds for encouragement of export industries			BOK		
9. Lowering of loan interest rates		Monetary Board			
10. Enforcement of local credit system		MOF, MCI, BOK			
11. Tax privileges for export industries			MOF		
12. Expansion and development of oversea's markets		MCI			
13. Enforcement of discounts on public utility rates		MCI & MOF			
TOTAL		10	2	1	13
II. & III. <u>Agriculture and Fisheries</u>					
1. Signing of ROK-US Sanitation Agreement			MOAF & MOFA		
TOTAL		0	1 (not added)	0	0
IV. <u>Mining</u>					
V. <u>Light Industry</u>					
1. Transformation of medium and small firms to export industry		MCI			
2. Creation of export industry complexes.		MCI			
TOTAL		2	0	0	2

<u>Proposals, Instructions or Recommendations</u>	<u>Type of Action Taken</u>	<u>a. Favorable Results</u>	<u>b. Under Action by</u>	<u>c. No Action Pending</u>	<u>Total</u>
I. <u>Finance & Taxation</u>					
1. Enforcement of Export Bonus	Report submitted to MCI & USOM	Yes			
2. Revision of Foreign Exchange System	Floating of the exchange rate adopted	Yes			
3. Enforcement of single flexible exchange system	Floating exchange system implemented	Yes			
4. Liberation of trade by gradual removal of quota system	Implemented	MCI			
5. Intensive encouragement of export commodity production firms		MCI			
6. Preferential payment of production encouragement funds				MOF	
7. Raise of loan percentages		MCI & MOF			
8. Expansion of funds for encouragement of export industries			BOK		
9. Lowering of loan interest rates		Monetary Board			
10. Enforcement of local credit system		MOF, MCI, BOK			
11. Tax privileges for export industries			MOF		
12. Expansion and development of oversea's markets		MCI			
13. Enforcement of discounts on public utility rates		MCI & MOF			
TOTAL		10	2	1	13
II. & III. <u>Agriculture and Fisheries</u>					
1. Signing of ROK-US Sanitation Agreement			MOAF & MOFA		
TOTAL		0	1 (not added)	0	0
IV. <u>Mining</u>					
V. <u>Light Industry</u>					
1. Transformation of medium and small firms to export industry		MCI			
2. Creation of export industry complexes.		MCI			
TOTAL		2	0	0	2

<u>Proposals, Instructions or Recommendations</u>	<u>Type of Action Taken</u>	<u>a. Favorable Results</u>	<u>b. Under Action by</u>	<u>c. No Action Pending</u>	<u>Total</u>
VI. <u>Heavy Industry</u>		0	0	0	0
VII. <u>Simplification of Procedures</u>					
1. Encouragement of private diplomacy and moderation of traveller's checks	MCI				
2. Establishment of Shipping Center	KOTRA				
3. Smoother supply of domestically-produced raw materials	MCI				
TOTAL		3	0	0	3
VIII. <u>Information</u>					
1. Strengthening of export publicity activities	MCI, MPI, KOTRA				
TOTAL		1	0	0	1
IX. <u>Exporter/Importer Relations</u>					
1. Ethical education for qualitative improvement of traders	MCI				
2. Amendment of Trade Law	MCI				
3. Enhancement of external credit	MCI				
4. Integration and settlement of traders	MCI				
TOTAL		3	1	0	4
X. <u>Marketing Analysis & Research</u>					
1. Export allotment for each overseas mission	MOFA				
2. Export allotment for each Overseas Trade Center	KOTRA				
3. Responsible quota for each export group	MCI				
4. Expansion of commercial diplomacy	MCI & MOFA				
5. Expansion of export markets in Europe	MCI & KOTRA				
6. Stopped-up management of KOTRA	MCI & KOTRA				
TOTAL		5	1	0	6

<u>Proposals, Instructions or Recommendations</u>	<u>Type of Action Taken</u>	<u>a. Favorable Results</u>	<u>b. Under Action by</u>	<u>c. No Action Pending</u>	<u>Total</u>
XI. <u>Quality Improvement & Technical Assistance</u>					
1. Practical trade education	MCI & KOTRA				
2. Inclusion of trade in curriculum of technical schools	MOE				
3. Utilization of trade lectures	KOTRA, KTA, & CCK				
4. Movement to improve quality of export commodities	MCI				
5. Expansion of K.S. marking	MCI & MIRI				
6. Stepped-up technical training for export industries	KOTRA				
7. Assistance for rational management	MCI & KPC				
8. Enforcement of export inspection	MCI (MIRI)				
9. Management of Export School	KOTRA				
10. Packing guidance for export commodities	KOTRA				
TOTAL		10	0	0	10
XII. <u>Export to Vietnam (not applicable)</u>		0	0	0	0
XIII. <u>Steering Committee and n.e.c.</u>					
1. Enforcement of export insurance system	KOTRA & MCI				
2. Thorough examination and analysis of comprehensive export promotion policy	MCI				
3. Selections and encouragement of specialized export industries	MCI				
4. Enforcement of trade talks	MCI & MOFA				
5. Strengthening of economic activities by overseas missions	MCI & MOFA				
6. Strengthened structure of Commercial Bureau	MCI				
7. Securing and efficient management of export ships					
TOTAL		5	2	0	7

Appendix D

ANALYSIS OF EPSC ACTIVITIES - 1966

<u>Proposals, Instructions or Recommendations</u>	<u>Action Taken</u>	a. <u>Proposals Accepted</u>	b. <u>Proposals Being Considered</u>	c. <u>Under Action by</u>	d. <u>No Report on Action</u>	<u>TOTAL</u>
<u>Steering Committee</u>						
1. Simplification of trade procedures:	MCI to request USOM Consultant	X		MCI		
2. Improvement of transport- ation, custom clearance, stevedoring, communication and other similar activities related to export trade.	Special freight cars assigned; other measures being considered	X		MOT, MCI		
3. Research on export insurance.	Export Insurance Law has been drafted; MCI requesting research organization	X		MCI		
4. Establishment of arbi- tration system.	Korean Chamber of Commerce X doing research and devel- oping plans			KC of C		
5. Develop bonded raw material system prior to receipt of L/C.	MCI Notice 2498, March 10, 1966	X		MCI		
Steering TOTAL		5	0	.	0	5

Finance & Taxation

1. Develop export commodity production firms.					X	
2. Implement measures for spreading time on L/C credit system.		X		BOX		

Finance & Taxation (Cont.)

3. Implement measures for distribution of credit between exporters and producers.	BOK encourages distribution of credit through co-signature system	X			BOK
4. Implement measures to consolidate and rationalize all export credits.	No new provisions needed	X			EPSC
5. Study the possibilities of custom duty exemption of quality control equipment.	Proposal made to EPSC. Accepted	X			EPSC

Finance & Taxation TOTAL

4

0

1

5

Agriculture

1. Establish export industrial development priorities.					X	
2. Develop measures and plans to develop the dyeing industry within the silk fabric industry.	Referred to MCI		X		MCI	
3. Study cultivation techniques to increase export of Chinese herbs and medicines.			X		MOAF	
4. Study measures to increase leaf tobacco export.	Plan drawn by Office of Monopoly	X			MOF	
5. Study the problem of lack of funds to purchase cocoons for raw silk production.						X

Agriculture TOTAL

1

2

2

5

Fishery

1. Establish export development priorities.	Referred to MOAF	X	MOAF		
2. Prepare a paper to request MOAF to send a Korean oyster expert to the U.S.	Fisheries Working Group	X	W/G		
Fishery TOTAL		0	2	0	2

Mining

1. Study and present implementation measures concerning quality control of mineral exports.	Referred to Mineral Laboratory of Mining Association of Korea (Export Quality Inspector)	X	Mining Ass'n.		
2. Study problem of lack of coal development financing.	Requested 420 million Won in 1967 budget	X	MCI, EPR		
3. Develop measures to improve the tabulation of export statistics.		X	MCI		
4. Expand Technical training programs for technicians and sales promotion staff.		X	MCI		
5. Examine the problem of copper concentrate shortages at Changhang Smelter.	Referred to KMSC	X	KMSC		
6. Examine the truck shortage in various mine operations.	Referred to Office of Geological Survey	X	OGS		

Mining (Cont.)

7. Suggest to Korea tungsten mines that they obtain technical assistance to aid them in their deep shaft program.

Referred to Korea Tungsten Mining Co.

X

Korea Tungsten Mining Co.

Mining TOTAL

2

5

0

7

Industry

1. Develop plans and request USOM to invite consultants in arbitration, export insurance, industrial graphic design, export procedures, export training school, and agriculture.

MCI has forwarded request to EPB

X

MCI, EPB

2. Strengthen technical training for export industries.

EPB is screening project proposals in order to make request to USOM

X

EPB

Industry TOTAL

2

0

0

2

Quality Inspection and Technical Assistance

1. Strengthen export inspection system.

74 commodities required to be inspected in 1964; 149 in 1965; 162 in 1966

X

MCI

Quality Inspection and Technical Assistance (Cont.)

2. Exhibitions for quality improvement.		X		MCI/Private firms		
3. Expand and strengthen Korean Standards (KS) system.		X		MCI		
4. Decide the location and operating procedures of Kyong Nam Testing Laboratory.	Referred to MOHA		X	MOHA		
5. Develop a language training program for AID participants.	To be budgeted by MCI	X		MCI & USOM		
6. Develop a foundry training program.	To be budgeted by MCI	X		MCI		
7. Establish a sister relationship between NTRI and the U.S. Bureau of Standards.	MCI through USOM	X		MCI & USOM		
8. MOAF request USOM to assist in financing \$10,000 worth of testing equipment for Nat'l Agric. Products Inspection Laboratory.	PIO/C being processed	X		MOAF & USOM		
9. Request Taiwan for assistance in training inspection experts.	Referred to Export Inspection Section, MCI	X		MCI		
10. Improve library facilities at NTRI.	Under study by working group		X	W/G		
Quality Inspection and Technical Assistance TOTAL		8	2		0	10

Marketing

1. Establish Handicraft Technical Center and Merchandise Display Center.	USOM Consultant arrived Aug. 1966 to develop plans for merchandise Display Center; Handicraft Technical Center established in Art College, SNU	X	MCI, USOM, KOTRA
2. Assist in developing exports to Vietnam	KOTRA, Private Associations	X	KOTRA, Private Ass'ns.
3. Plan to invite foreign journalists	Referred to KOTRA	X	KOTRA
4. Plan to furnish Korean industries information on available export assistance and how and where to obtain this assistance.	Referred to KOTRA	X	KOTRA
5. Develop public relations and promotion program in foreign countries.	Referred to KOTRA	X	KOTRA
6. Invite buyers groups from various countries.	Referred to KOTRA	X	KOTRA
7. Actively utilize international economic organizations.	Economic Missions sent abroad	X	MCI
8. Improve packaging, design and enforcement of registration system.	Draft regulation being prepared	X	MCI
9. Establish display centers in hotels and airports.	Referred to KOTRA	X	KOTRA

<u>Proposals, Instructions or Recommendations</u>	<u>Action Taken</u>	a. <u>Proposals Accepted</u>	b. <u>Proposals Being Considered</u>	c. <u>Under Action by</u>	d. <u>No Report on Action</u>	<u>TOTAL</u>
<u>Marketing (Cont.)</u>						
10. Invite a consultant for one year to assist and advise KOTRA overseas offices.	KOTRA & MCI requested USOM	X		MCI, USOM		
		<hr/>	<hr/>		<hr/>	<hr/>
Marketing TOTAL		10	0		0	10

Appendix E

ANALYSIS OF EXPORT PROMOTION POLICY PROGRAM ACTIONS - 1965

<u>Proposals, Instructions or Recommendations</u>	<u>Action Taken</u>	<u>a. Proposals Accepted</u>	<u>b. Proposals Being Considered</u>	<u>c. Under Action by</u>	<u>d. No Report on Action</u>	<u>TOTAL</u>
<u>Steering Committee</u>						
1. Simplify trade procedures.	MCI will request a USOM Consultant.	X		MCI		
2. Improve transportation system, custom clearance, ste- vedoring, communications, etc., related to trade.	Special freight cars have been assigned; other measures being considered.	X		MOT, MCI		
3. Continue to study the export insurance system.	Export Insurance Law has been drafted; MCI requesting a research organization.	X		MCI		
4. Strengthen the control over offering firms.	Presidential Decree 2623 to revise trade law enforcement rule whereby offering firms are required to register.	X		MOF, MCI		
5. Synthesize and adjust trade laws.				MCI	X	
6. Permit the import of raw materials for export on 180 days D/A basis and shipper's usance.	MCI Notice 2498.	X		MCI		
7. Create a prior warehouse stock supply system.	MCI Notice 2498.	X		MCI		
8. Encourage increased use of domestic raw materials.	Adopted margin system. Restricted items - 30% Unspecified items - 20%	X		MCI		

Steering Committee

9. Induce joint venture investments for export industries.		X		MCI, KOTRA		
10. Enforce a reporting system of manufacturers producing raw materials for export.	MCI Notice 2498	X		MCI		
11. Enforce the trade arbitration system.	Korean Chamber of Commerce doing research and developing plans.	X		KC of C		
12. Prevent excessive competition.					X	
Steering Committee TOTAL		10	0		2	12

Finance and Taxation

1. Strengthen the functioning of market research and credit information services in BOK.	Foreign Trade Information Section was established.	X		BOK		
2. Restrain excessive protective trade.	Import items are gradually being liberalized.	X		MCI		
3. Adjust Customs tariffs.	Under review on the assumption that GATT admission will be given.		X	MOF		
4. Diversify means of financial settlements	MOF Notice 361, MCI Notice 3715.	X		MOF		
5. Enforce a system requiring the foreign exchange certificate as an attachment.	Conflicts with IMF regulation.			Rejected		

Finance & Taxation (Cont.)

6. Expand the BWT system.	Export - Warehouse under construction in Vietnam. Import - For other areas than Vietnam, MCI Notice 2499.	X	MCI	
7. Enforce D/A imports allocation by period and region.				X
8. Effectively utilize local credit system.	BOK regulation was changed on May 31, 1966.	X	BOK	
9. Provide credit for modernizing export industry through shipper's usance.	MCI Notice 2490.	X	MCI	
10. Secure 1000 million Won of KRB facility loan funds for specialized export industries.	Secured and executed 589 million Won by the end of June, 1966.	X	MCI	
11. Reactivate the enterprise reserve fund system for the expansion of export industrial facilities.				X
12. Exempt business tax for manufacturers producing raw materials for export and export goods.	Presidential Decree 2557.	X	MOF	
13. Enforce the commodity tax exemption on raw materials imported for export to replace raw materials imported for domestic consumption.	Commodity tax law was amended on March 8, 1966.	X	MOF	

Finance & Taxation (Cont.)

14. Establish a more realistic rate of depreciation.	Special depreciation system has been implemented for designated export industries.	X	MOF		
15. Exempt taxes on expendable supplies as applied to raw materials for export.				X	
16. Maintain the present rate of the export credit interest.	Being maintained.	X	MOF		
17. Increase the credit ceiling.	1st and 2nd quarter, 8500 million, 3rd quarter, 9500 million Won.	X	MOF		
18. Enforce the co-signature system by traders and producers in export financing.	The system is being encouraged when giving credits.	X	BOK		
19. Strengthen the sanction system against exporters having overdue export loans and transfer the overdue loans to the general credit ceiling.	Rate of interest is made subject to ordinary rate.	X	BOK		
20. Enforce the system of alternate borrowing patterns in export financing.	Lump sum loan - 60 days Installment loan - 120 days	X	BOK		
21. Increase operating funds for export industries.	200 million Won now available.	X	MCI		
22. Release fund for collecting primary products on non-L/C basis.	Given priority by NACF and Fisheries Cooperative loans.-	X	MOAF		
Finance & Taxation TOTAL		17	1	1 (rejection)	3 22

Quality Improvement (Cont.)

6. Establish a function in KOTRA fully responsible for improvement of packaging and design.	Established Commodity Planning Section	X	KOTRA		
Quality Improvement TOTAL		5	0	1	6

Marketing

1. Strengthen public relations activities for export promotion.	KOTRA requested funds for P.R. firm in 1967 budget.	X	MCI, KOTRA		
2. Enhance trade ethics among the traders.	Trade ethics committee was established in KTA.	X	KTA		
3. Conclude trade agreements with Canada, Mexico and U.R.	Preliminary negotiation with Canada and provisional agreement with Mexico.	X	MCI, MOFA		
4. Hold trade conference with Taiwan, Philippines, Malaysia, Vietnam, Japan, West Germany and Italy.		X	MCI, MOFA		
5. Direct KOTRA activities to fields directly related to export development such as guidance of business connection, propaganda, market research, etc.			MCI, KOTRA	X	
6. Increase trade centers.	Chicago, Milano Centers opened.	X	KOTRA		
7. Devote KOTRA publications to sales promotion and introduction of Korean products.			KOTRA	X	

Industry

1. Develop export specialized industries.	13 categories of industry were selected and individual selection is under way.	X	MCI		
2. Transform small-medium industrial plants into export industries.	350 in 1965 and 179 in 1966 transformed.	X	MCI		
3. Establish export industry sites.	Continually being created.	X	MCI		
Industry TOTAL		3	0	0	3

Quality Improvement

1. Strengthen export inspection system.	74 commodities required to be inspected in 64, 149 in 1965, 162 in 1966.	X	MCI		
2. Hold exhibitions for quality improvement.				X	
3. Expand KS marking system.		X	MCI		
4. Strengthen technical training program for export industries.	NIRI gives continual guidance.	X	MCI		
5. Establish a department in MCI to work on design and implement the registration system.	Established sub-section in MCI to implement the design registration.	X	MCI		

Marketing (Cont.)

8. Establish a handicraft center	Established in Arts College of Seoul National University.	X	JNU	
9. Establish an export publications library.	Being operated by KOTRA.	X	KOTRA	
10. Strengthen the operation of the export school.			KOTRA	X
11. Establish a military goods supply display center.			MCI	X
12. Expand KOTRA communication facilities and publish monthly overseas information bulletin.	Installed telex facility in New York, San Francisco, Hong Kong, Singapore and Tokyo. Bulletins are published.	X	KOTRA	
13. Encourage the establishment of overseas branches by export associations, KTA, and leading trade firms.	Revised FX management regulation to allow the increased use of FX for foreign travel and operation of branches overseas.	X	MCI	
14. Continue to dispatch trade missions.	3 missions sent to South-east Asia and Middle East.	X	MCI, MOFA, KOTRA	
15. Participate in sample market and trade fairs.	Took part in Osaka Sample	X	MCI, KOTRA	
16. Invite foreign reporters in the economic field.			KOTRA	X

Marketing (Cont.)

17. Do public relations work and publicity in foreign trade journals and newspapers to promote trade and encourage tourism.		X		KOTRA				
18. Invite foreign buyers.	Buyers groups have come in past; more are planned.	X		MCI, KOTRA				
19. Strengthen utilization of international organizations.				MCI		X		
20. Expand the fund ceiling for overseas travel.	Note item 13 above.	X		MCI				
21. Assign full-time service staffs for oversea department store trade development.						X		
Marketing TOTAL		<hr/> 14	<hr/> 0			<hr/> 7	<hr/> 21	

Appendix F

EXPORT COMMODITIES EXCEEDING TARGET REQUIREMENTS - January - August 1966

(A) Commodity (Listed in Decreasing Order of % of Target Achieved; D Column)	(B) 66 Target as Adjusted in July (Old Target)*	(C) 66 Actual Exports Jan. - Aug.	(D) % of Target Achieved Jan. - Aug.**	(E) 65 Actual Exports Jan. - Dec.	(F) % Change of Exports 66/6 Jan. - Aug.
1. <u>Zinc Concentrates</u> Comments - (C) Good production and low domestic demand allow large amounts to be exported; primary market, Japan, is quite strong; a positive MCI policy has helped increase exports.	(0) 1,290	1,452	113	765	+321
2. <u>Lead Concentrates</u> Comments - (C) See zinc concentrates above.	(0) 1,600	1,693	106	1,322	+117
3. <u>Hair</u> Comments - (A) During the first six months of 1966, human hair was 97% of the total. (C) A ROKG embargo on raw human hair exports, effective July 1, 1966, will drastically decrease hair exports.	3,000	2,827	94	3,736	+24

A - Comments by MCI
B - Comments by KOTRA
C - Comments by USOM

* Figures
in ()
are ROKG targets
originally
established at
beginning of 1966

** As against
new target.
() figures
against
original 1966
targets

(A) Commodity (Listed in Decreasing Order of % of Target Achieved; D Column)	(B) 66 Target as Adjusted in July (Old Target) (6,300) 7,500	(C) 66 Actual Exports Jan. - Aug. 7,041	(D) % of Target Achieved Jan. - Aug. (112) 94	(E) 65 Actual Exports Jan. - Dec. 6,642	(F) % Change of Exports 66/65 Jan. - Aug. +94
4. <u>Tungsten</u> Comments - (A & B) International price increase.	7,500	7,041	94	6,642	+94
5. <u>Wigs</u> Comments - (A) Import prohibition by U.S. on Hong Kong - made wigs because of human hair purchased from Red China; facility expansion. (B) Increased demand; quality improvement and low price. (C) HONG embargo on human hair exports has forced manufacturers to use all local hair available for wig production. A number of private U.S. technicians and joint ventures have improved quality acceptability.	7,000	5,461	92	1,618	+602
6. <u>Rubber Shoes</u> Comments - (C) Export quality excellent; high production capacity; low, competitive price.	3,500	2,970	85	3,374	+45
7. <u>Molybdenum</u> Comments - (A & B) Favorable trend in international price. (C) Shortage of world supply has caused increased demand.	(1,400) 1,600	1,365	(98) 85	1,635	+23
8. <u>Rayon Fabrics</u> Comments - (C) Low price	2,500	2,076	83	1,737	+76
9. <u>Tobacco</u> Comments - (A) Multiplication of overseas markets; lower price than some competitors.	5,400	4,212	78	2,341	+1,031

10. <u>Fishing Net Fabrics</u>	1,500	1,127	75	1,137	+133
Comments - (C) Increased availability of raw materials.					
11. <u>Net/Lace Fabrics</u>	(2,500) 3,000	2,180	(87) 73	1,544	+160
Comments - (A) Facility expansion and increased foreign markets.					
12. <u>Agar Agar</u>	(2,500) 3,000	2,178	(87) 73	1,600	+180
Comments - (A) Increased demand in Japan; international price rise. (B) Increasing recognition of quality of Korean agar agar. (C) Despite increased exports, criticisms have been made by foreign buyers that Korean agar agar is badly graded.					
13. <u>Sweaters</u>	(8,000) 14,000	10,123	(127) 72	5,825	+172
Comments - (A) Liberalization of knitting machine import; training of technicians; establishment of work centers in refugee villages. (C) Quality refinements by buyers have made Korean sweaters internationally desirable.					
14. <u>Synthetic Textile Fabrics</u>	(3,000) 3,500	2,518	(84) 72	2,231	+114
Comments - (C) Diversification of products and markets.					
15. <u>Arrowroot Wallpaper</u>	(1,500) 2,000	1,407	(94) 70	1,496	+60
Comments - (B) Prohibition of raw material export to Japan; demand increase and diversification; quality improvement and low price.					

Appendix G

EXPORT COMMODITIES BELOW TARGET REQUIREMENTS - January - August 1966

1. <u>Steel Bar</u> Comments - (A) Cessation of AID-financed purchases.	1,000	22	2.2	876	-97
2. <u>Laver</u> Comments - (A) Agreement reached at Korea-Japan trade discussions to export 3.7 million bundles at \$2.70 each. (C) Seasonal product; in October, Japan opened L/C's to import approximately \$7 million worth.	6,000	588	10	3,772	+242
3. <u>Sewing Textile Products</u> Comments - (A) Import restriction by U.S.	1,600	544	34	-	+21
4. <u>Thrown Silk</u> Comments - (A) Japanese products made of Red-Chinese raw silk have invaded Thai market.	1,000	357	36	658	-15
5. <u>Vine Red</u> Comments - (A) Cessation of AID-financed purchases.	1,200	450	38	1,053	-27
6. <u>Peignee</u> Comments - (A) Shortage of raw material.	1,000	409	41	43	+5,817
7. <u>Cotton Fabrics</u> Comments - (A) Facility shortage. (B) Lack of interest by businessmen in export because of low profits; emphasis placed on more profitable military supply and domestic market.	(17,000) 13,000	5,454	(32) 42	9,483	-25

8. <u>Shirts</u>	16,000	7,437	47	10,867	-2
Comments - None					
9. <u>Fresh Fish</u>	7,000	3,262	47	6,393	-9
Comments - (A) Shortage of vessels for fresh fish transport; price rise in domestic market and decline in Japan. (B) Declining imports by Japan; delay in import price determination by Japan; irregular tidal currents.					
10. <u>Canned Fish</u>	2,500	1,174	47	1,037	+116
Comments - (A) Rise in price of fish; lack of seasoning technology. (C) High price of imported cans; small volume of production; poor sanitation in canneries.					
11. <u>Woolen Fabrics</u>	4,000	1,880	47	2,708	+8
Comments - (A) Seasonal demand; U.S. is only market. (C) European market should be developed; reducing great gap between low export prices and high domestic prices could help develop a ready made domestic market; mass production methods would greatly assist export market.					
12. <u>Steel Plate and GI Sheet</u>	(18,000) 12,000	6,313	(35) 53	11,042	+30
Comments - (A) Cessation of AID-financed purchases.					
13. <u>Chinese Medicine</u>	(1,300) 1,300	733	(49) 56	878	+33
Comments - None					
14. <u>Other Clothing</u>	(2,570) 1,400	799	(31) 57	2,490	-27
Comments - (C) This industry has great potential growth possibilities; requires incentives and encouragement; implementation of Korean Technical Team and Udell report recommendations are necessary.					

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